Indonesia Industry Focus

Indonesia Property Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Dec 2017

Not ready to shine yet

- Maintain cautious view as demand recovery expected to remain soft
- Marketing sales expected to grow just from price, not volume
- Sector has underperformed and thus its valuation is undemanding, but it lacks near-term catalysts
- Prefer defensive stocks like BSDE

Maintain cautious view on property sector. Although we believe the phase of negative marketing sales growth is over (having bottomed in 2016), marketing sales will grow at a slow pace in 2018 as demand recovery remains muted. In addition, political risks could dampen the sentiment ahead of the 2019 election. Aside from valuation and underperformance issues, the sector still lacks near-term catalysts.

Demand recovery will move at a slow pace. As affordability has only started to recover in 2016, we believe it would still need some time for real demand to catch up. We expect real demand to take around three years to catch up with elevated levels of property prices. Investors, on the other hand, will not find property as an attractive investment instrument in the near future. We believe that property price appreciation over the last three years has trailed the expectations of investors who also need to contend with liquidity risks associated with property investments.

Mainly driven by price rather than volume. We expect marketing sales to grow by just 5% in 2018, driven by price increase rather than volume pick-up. Although aggregate marketing sales have shown a huge improvement over 2016, but the growth was driven by bulk land plot sales and Lippo Karawaci's (LPKR) Meikarta project. Excluding those, we believe demand remains sluggish and expect FY17F marketing sales to be flat y-o-y.

We prefer defensive stocks. Bumi Serpong Damai (BSDE) remains our top pick, as it appears to enjoy competitive advantages arising from its strong balance sheet and profit margins. Coupled with its huge land bank, we believe BSDE could still do well in a weak demand environment.

JCI : 6,026.60

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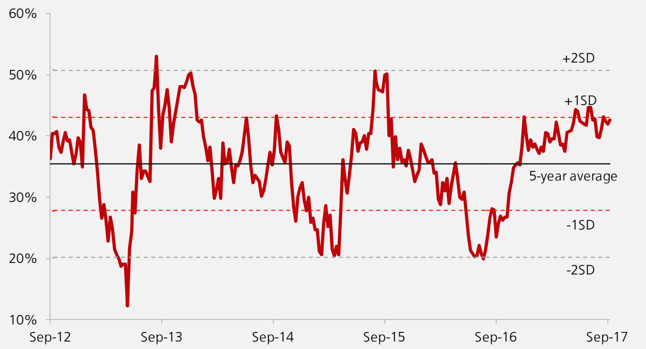
STOCKS

	Price Rp	Mkt Cap US$m	12-mth Target Price Rp	Performance (%) 3 mth	12 mth	Rating
Alam Sutera Realty	338	490	400	(2.3)	(13.3)	HOLD
Bumi Serpong Damai	1,585	2,252	2,105	(14.1)	(12.7)	BUY
Ciputra Development	1,175	1,610	1,190	1.3	(17.0)	HOLD
Pakuwon Jati	640	2,276	615	(2.3)	(0.8)	HOLD
Summarecon Agung	840	895	1,050	(16.0)	(43.2)	HOLD

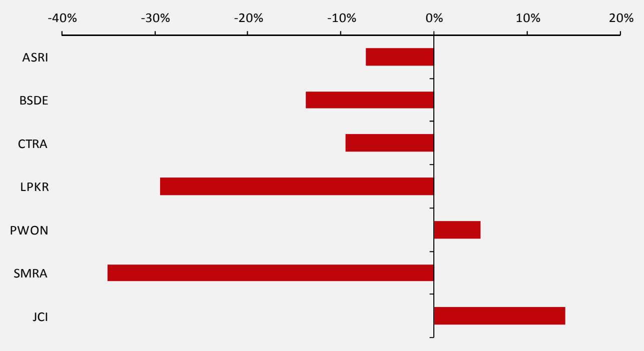
Source: DBSVI, Bloomberg Finance L.P.
Closing price as of 11 Dec 2017

Property sector discount to RNAV



Source: Company, Bloomberg Finance L.P., DBSVI
**Aggregate of ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

YTD performance of property stocks



Source: Bloomberg Finance L.P., DBSVI

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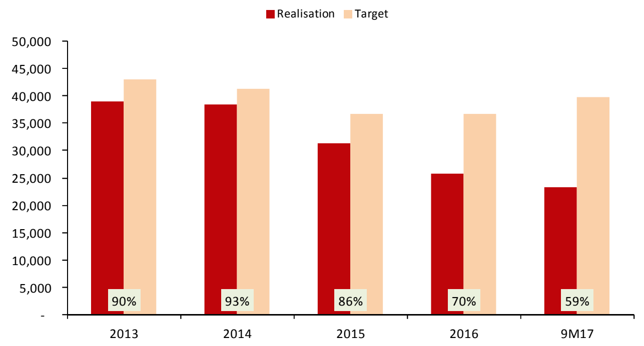
Downside risks for 2017 marketing sales

We expect some developers to miss marketing sales target

Even though some developers have revised down their FY17 target, we expect marketing sales achievement to still miss their target this year. The downside risks to our view include more land plot sales and the strong performance of the Meikarta project that has contributed significantly to LPKR's marketing sales achievement.

9M17 marketing sales achievement vs FY17 target



Source: Company, DBSVI
**Total marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Most developers have lagged behind in their marketing sales achievement in 9M17. BSDE and Ciputra Development (CTRA) are among the high achievers with 66% and 65% of their full-year targets being met respectively in 9M17. BSDE's marketing sales have been supported by its land plot sales. Excluding its land plot sales, 9M17 marketing sales met only 31% of its FY17 target. CTRA's marketing sales have been supported by its North West Hill cluster launch in Surabaya area, which raked in Rp1.1tr.

LPKR's modest achievement of 54% is mainly attributed to its Meikarta project that was launched in 2Q17. The project contributed 95% of its 9M17 marketing sales achievement. At 57% of its FY17 target, Summarecon Agung's (SMRA) achievement is akin to LPKR's. But SMRA has revised down its marketing sales to Rp3.5tr from Rp4.5tr previously. Alam Sutera Realty (ASRI) posted the lowest achievement at 25% due to its high marketing sales target of Rp5tr while its marketing sales achievement was flat on a y-o-y basis.

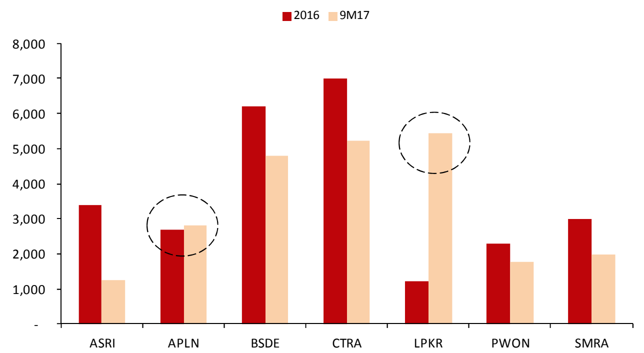
In the first nine months, only Agung Podomoro Land (APLN) and Pakuwon Jati (PWON) were on track to meet their marketing sales target. APLN's 9M17 marketing sales met 80% of its FY17 target. The bulk of its marketing sales came from its land plot sales to China Fortune Land Development (CFLD) in 1Q17. PWON, after missing its 2016 marketing sales target, has lowered its target this year to Rp2.5tr (+10% from 2016's achievement). Its 9M17 marketing sales have met 71% of its FY17 target.

Slow coming off the bottom

Although we believe the phase of negative marketing sales growth is over (having bottomed in 2016), marketing sales will grow at a slow pace going forward, in our view. This has led us to maintain our cautious view on the sector despite the underperformance of the sector vs the JCI in 2017.

The marketing sales of developers in our coverage have improved, with the 9M17 number coming in at Rp23.3tr or just 10% below FY16's Rp25.7tr. The bulk of sales came from LPKR that recorded a spike in its marketing sales arising from its new grand project in the Cikarang area, Meikarta. APLN also posted a huge improvement in its 9M17 marketing sales achievement that already exceeded its FY16 figure. However, this mostly came from its industrial land plot sales in Karawang to CFLD that amounted to Rp1.4tr. The transaction made up half of its 9M17 marketing sales of Rp2.8tr.

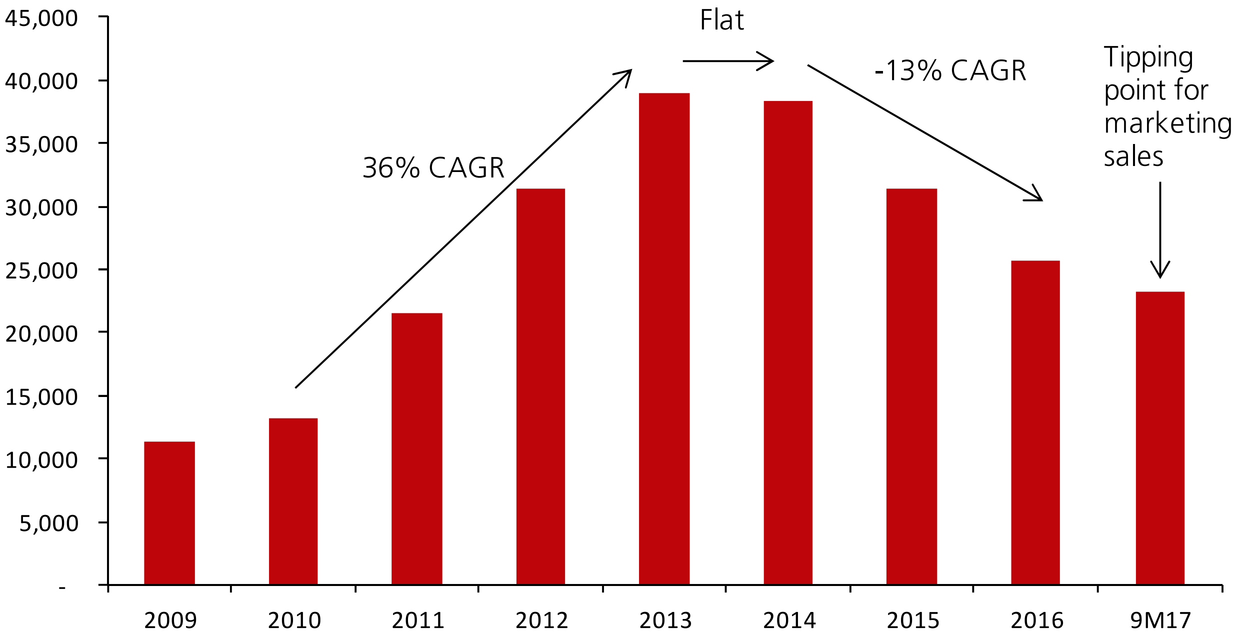
9M17 marketing sales compared to FY16



Source: Company, DBSVI

Marketing sales posted negative growth over the past few years
Property developers booked a stellar marketing sales CAGR of 36% from 2010-2013. But this has slowed down since then and property developers have had a hard time in growing their marketing sales further. Despite the optimism on the property sector, marketing sales have deteriorated from the peak in 2013 with negative 13% CAGR over 2014-2016.

Marketing sales of property developers* (Rp bn)

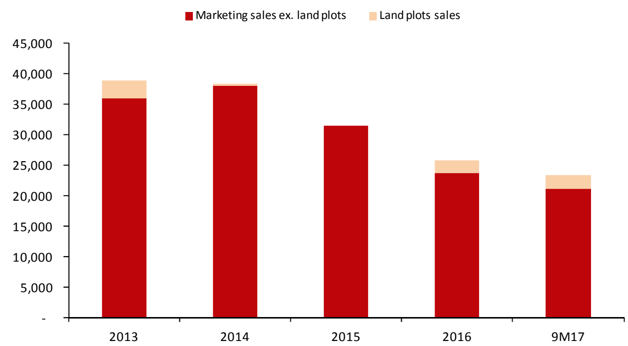


Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Marketing sales helped by land plot sales

More land plots sales to be recorded
The marketing sales achieved in FY16 and 9M17 have been helped by bulk sales from land plots. Land plots sales for developers in our coverage stood at Rp2tr in FY16 and increased by 10% to Rp2.2tr in 9M17. With some of the companies in our coverage expecting to rake in additional Rp2tr land plot sales in total, the land plot sales figure could double from last year's if they materialise.

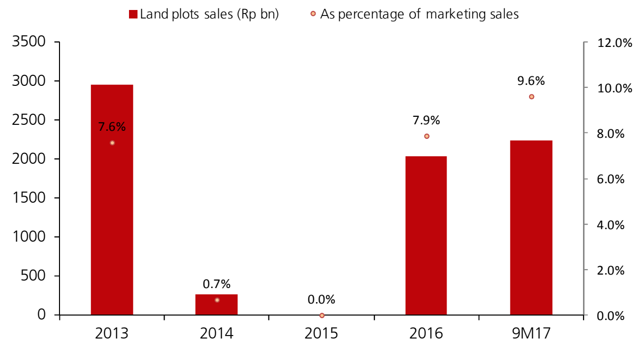
Marketing sales of property developers



Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Relative to total marketing sales, land plot sales contribution in 9M17 reach a new level of 9.6% compared to 7.9% last year and 7.6% in 2013. Despite being higher in terms of value, the proportion of land plot sales to total marketing sales in 2013 was lower due to the fact that marketing sales peaked in 2013.

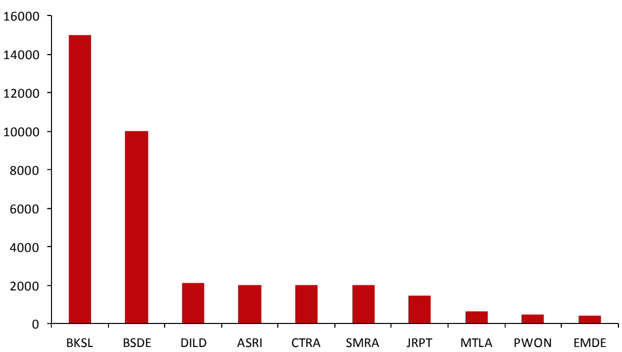
Land plots sales and their percentage to total marketing sales



Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

The trend will continue. We expect property developers to continue to record land plot bulk sales in view of the weak demand environment to boost their marketing sales and improve their balance sheet. Property developers with huge and valuable land bank will benefit from this trend, in our view.

Property developers' land bank (ha)



Source: Kontan, DBSVI

Marketing sales outlook

Developers will ramp up marketing sales in 4Q17
Despite lagging behind in 9M17 marketing sales achievement, some developers are ready to ramp up their marketing sales. ASRI is looking for a spectacular jump in its marketing sales achievement in 4Q17 from its second land plot sale to CFLD and the bulk sale of its office tower in Jakarta, The Tower. Around Rp1tr and Rp2tr marketing sales are expected for the land plot sale and office building sale respectively.

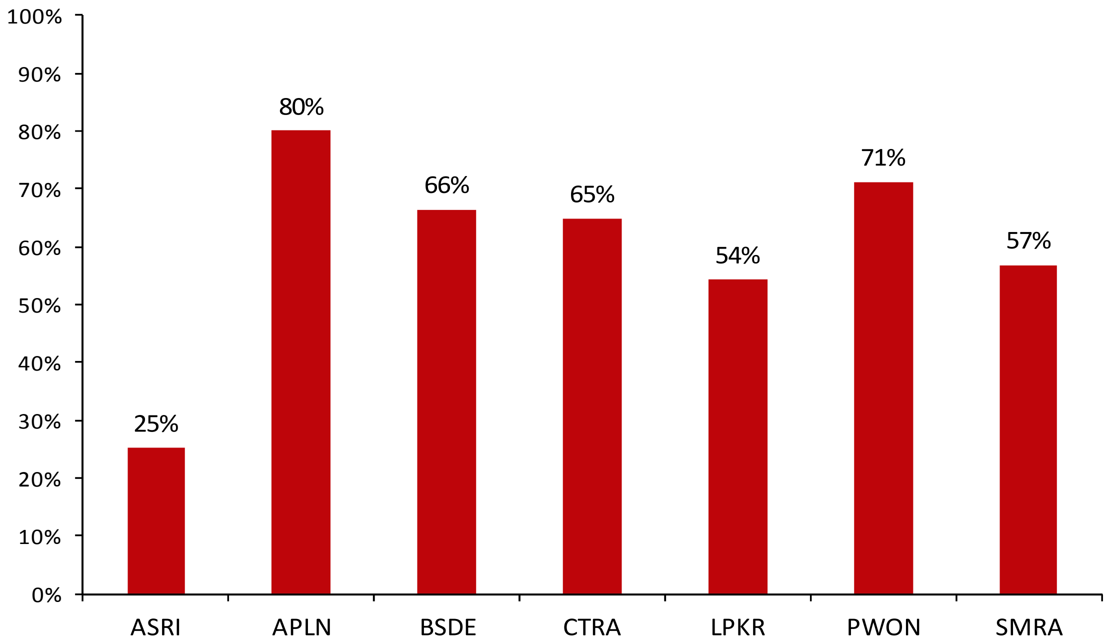
After booking Rp840bn from its JV land plot sale to Mitsubishi, BSDE is looking for another land plot sale with a value of Rp1tr. Combined with its marketing scheme, Price Lock, BSDE could achieve its marketing sales target. In the first month of its 3-month Price Lock promotion, BSDE has raked in Rp700bn marketing sales. If the land plot sale materialises, it will need to book Rp700bn marketing sales in the last two months of 2017, which we think is achievable.

CTRA's marketing sales in 4Q17 will depend on its new launches in Jakarta and Batam. The company expects to book Rp300bn from its high-rise development in Nagoya Hill, Batam, and Rp400bn from its Newton 2 apartment in Ciputra World 2 extension, Jakarta. CTRA's marketing sales will also be helped by its decision to sell service apartments in its Ciputra World 2 project for Rp675bn to Ascott Ltd.

LPKR's marketing sales this year will still depend on its mega project, Meikarta. Located in Cikarang with a development plan of 500ha, the project has gained huge attention due to its extensive marketing efforts. Since its launch in 2Q17, the project has contributed c.Rp2tr marketing sales each quarter.

SMRA has lagged behind its peers due to the weaker-than-expected marketing sales for its new development area in Bekasi, Bandung, and Karawang. The Serpong area remains the main contributor for SMRA, which is on track to meet its full-year target given that its 9M17 marketing sales met 73% of its FY17 target. Its newly project launch in Serpong, Symphonia, has gained traction with marketing sales of at least c.Rp700bn expected to be booked in 4Q17. Thus, thanks to the Serpong project, SMRA should exceed its marketing sales target this year.

Property developers' 9M17 marketing sales achievement



Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Marketing sales will grow by 5% in 2018, driven by price
We expect marketing sales to grow by 5% in 2018. But this growth will be driven by price increase rather than volume pick-up. In addition to our thesis of weak demand, we also take into consideration political issues to arrive at our assumption of weak volume growth.

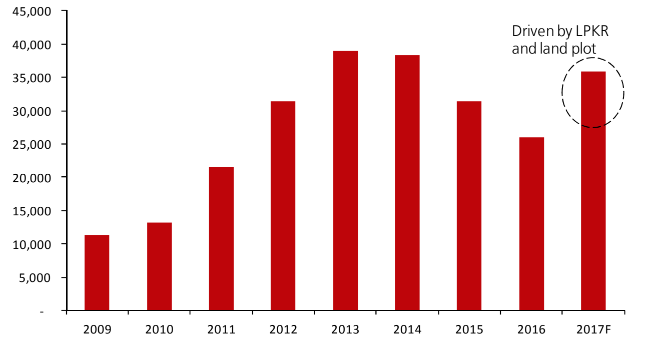
FY17F supported by Meikarta and bulk land plot sales
Aggregate marketing sales are expected to jump by 38% y-o-y to Rp35.9tr in FY17F. The main drivers include:

1. LPKR's Meikarta project
2. Bulk land plot sales by APLN, ASRI, and BSDE

LPKR has recently launched its new grand project in Cikarang, Meikarta. The project has brought LPKR's marketing sales to Rp5.4tr in 9M17, more than three-fold its low-base FY16 marketing sales. Its 9M marketing sales even hit a record high in 2016 to the tune of Rp5.2tr.

Land plot sales are expected to double y-o-y to Rp4.2tr in FY17F from Rp2.0tr in FY16. As of end-Sep 2017, Rp2.2tr land plot sales have been booked in FY17. ASRI and BSDE expect Rp2tr worth of bulk land plot sales to be booked in 4Q17.

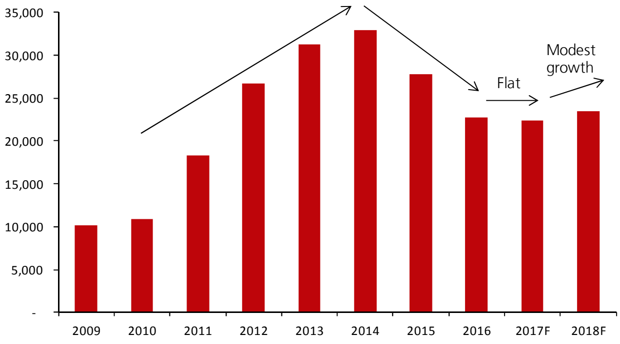
Marketing sales of property developers



Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Although aggregate marketing sales have a shown huge improvement over 2016, the growth was driven by bulk land plot sales and LPKR's Meikarta project. Excluding those, we expect FY17F marketing sales to be flat on a y-o-y basis. Going forward, we believe volume growth will remain soft in view of the weak demand environment and highly volatile political sentiment.

Marketing sales (ex. land plot sales) of property developers



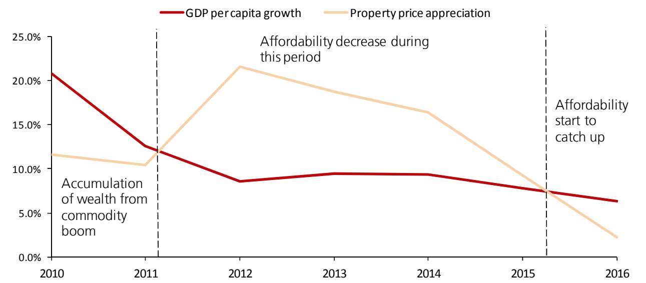
Source: Company, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, PWON, SMRA*

It should take around three years for affordability to catch up

It takes time for real demand to catch up

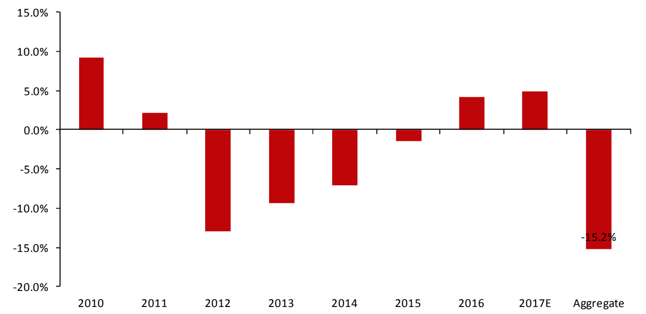
Affordability has only started to recover in 2016. Therefore, we believe it would still need some time for real demand to catch up. We expect real demand to take around three years time to catch up with elevated levels of property prices. Our analysis uses aggregate GDP per capita growth over property price in Greater Jakarta area and 2017F GDP growth over property price appreciation forecast going forward. Our economist expects 2017 GDP to grow at 5.1% and inflation to come in at 3.9%. We expect property price to grow at 3%, representing a slight increase vs 2.2% in 2016.

Property price growth vs GDP growth (%)



Source: World Bank, JLL, DBSVI

GDP growth over property price growth (%)



Source: World Bank, JLL, DBSVI

Property price appreciation had outran purchasing power

During the property boom period in 2011-2013, property prices had increased dramatically (i.e. land price in Serpong area rose at a CAGR of 40%) due to high demand from investors. Then, most people could not care less about prices as they believed prices will only go up. During those times, the purchasing power of property buyers had declined due to the fact that the pace of property price appreciation had outran the growth in income levels.

A year after the slowdown in Indonesia's property market, the property price appreciation rate had decelerated significantly to around the same level as GDP per capita growth. In 2015, market optimism on the property market had, once again, caused property price appreciation to trounce purchasing power growth. Optimism turned out to be just optimism after all. The price uptrend was fuelled by just expectations and not real demand.

After optimism about the property market started to diminish, property price appreciation decelerated again in 2016, even to the point of trailing the GDP per capita growth for that year. We see this as the turnaround point, after which the affordability of property in Indonesia should increase. Real demand appears to be still trying to catch up with bubbly property prices over the past five years.

Potential fuel for demand acceleration

Although the affordability of property is still on the path of recovery, the potential for a faster demand pick-up is possible. The factors that can stimulate demand are low mortgage rates, easier payment terms from property developers, and favourable government regulation. However, due to the prevailing macroeconomic conditions, we do not expect mortgage rates to go significantly lower than current levels.

Easier payment terms from property developers are still a possibility, as long as they have the balance sheet to do so. However, some developers might find it hard due to their gearing limitation, as they have been offering longer terms of payment since the onset of the property market slowdown.

Regulation could boost demand significantly. However, we do not think the current loan-to-value (LTV) ratio can be relaxed further as we think it is currently at a healthy level. Policies that promote foreign property ownership could help boost demand. But given the current state of the property market in Indonesia, we do not think that foreigners will find foreign property ownership attractive.

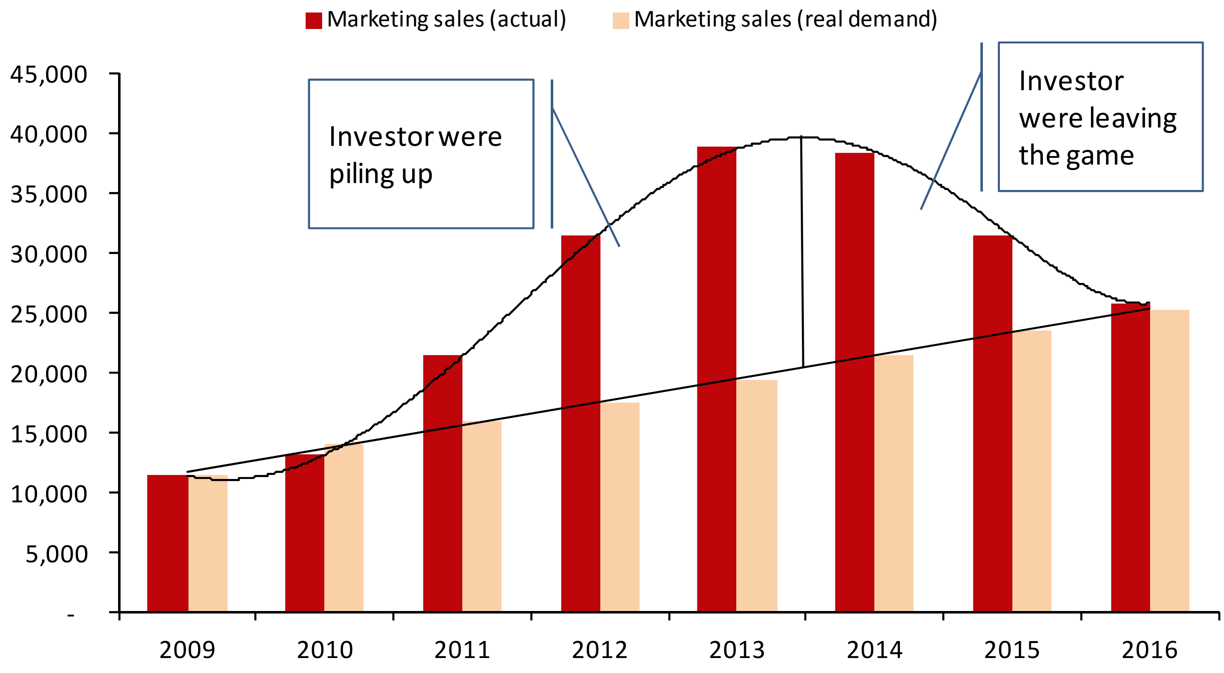
Investors are steadily leaving the bandwagon

Property investment has no appeal
We believe the property boom experienced over 2011-2013 was the result of many investors seeking out investment opportunities and/or speculators making a quick return on their investment. We noticed that unhealthy demand arose at that time, with some people buying several properties at once (usually high-rise units due to their cheaper price) only to sell them only after a few months if not weeks.

Following the episode of weak economic growth in late 2013, we believe that property investors were leaving the game as they started to feel that it was getting harder to sell their investment, coupled with their tighter cash flow. At the same time, end-user buyers were finding it more difficult to buy properties on the back of slowing economic growth, already bubbly prices, and higher downpayment requirements due to LTV tightening in 2013.

To confirm our thesis, we looked at the trend of actual marketing sales achievement which is the combined demand from end users and investors vs real demand which is derived from nominal GDP growth. We used 2009 as the basis of our analysis. A similar trend was seen when investors were jumping on the property investment bandwagon in droves during the property boom period and were seen leaving this bandwagon at a steady rate after 2013. Our analysis showed that in 2016, most of the demand was coming from end-user buyers as investors found property investment unattractive.

Proportion of investors for marketing sales achievement



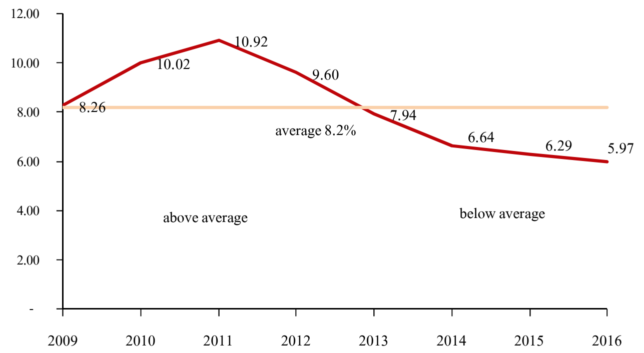
Source: Company, World Bank, DBSVI
**Aggregate marketing sales of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA*

Oversupply to pressure price

Rental yield below its historical average
If someone asked you what is the fair rental yield for, say condominium, what would it be? If you answered that it should be between 7% and 10%, then your guess is right. We looked at Jakarta rental yields and found its 8-year average (2009-2016) is 8.2%.

What about the rental yield trend? Unfortunately the rental yield in 2016 is well below its 8-year average at c.6%. Since the property market slowdown in the second half of 2013, the rental yield has been below its 8-year average. We do not think that rental yield would rebound to above 8% in the near future as we think market demand still needs to catch up with the supply. We believe market demand will be driven by end users rather than investors due to the lack of a premium for property investment, which will be discussed later.

Rental yield of Jakarta apartment (%)

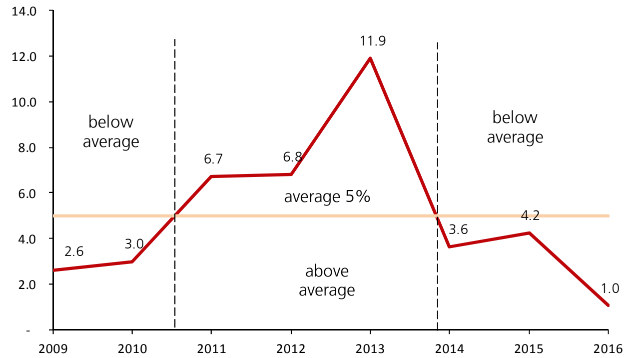


Source: Numbeo, DBSVI

Price appreciation was unattractive
Next, we looked at the capital gain which is realised when the property price increases in value over time. Data from the Central Bank of Indonesia (Bank Indonesia) suggests that over the last eight years, property prices have been in the positive zone with 2013 marking the peak at 11.9%. Over 2011-2013, property prices have increased by 8.5% p.a. on average, far above its 8-year average of 5%. However, similar to rental yields, we also saw capital gain in the last three years (2014-2016) coming in below the average, with 2016 marking the trough at only 1%.

In our view, property price appreciation over the last three years has been below what investors comes to expect after factoring liquidity risks for property investment. Thus, we think that investors will not find property as an attractive investment instrument in the near future.

Greater Jakarta property capital gain (%)

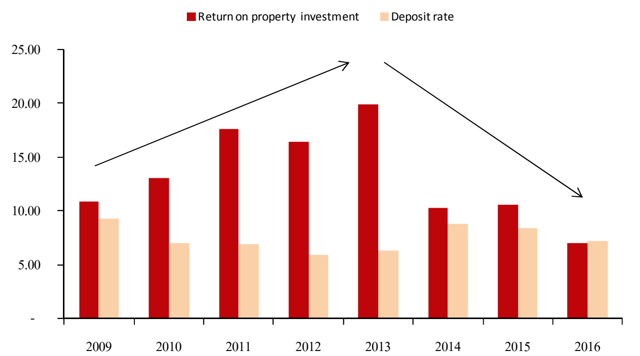


Source: Central Bank of Indonesia, DBSVI

Property premium hit the lowest in 2016
When looking at property as an investment instrument, we have to compare it to another instrument, such as time deposits. Both have the same characteristic of being considered as a safe-haven instrument, as most people believe both will not decrease in value. Property, however, is expected to give significantly higher returns than deposits due to the former's illiquid nature and larger capital outlay involved.

Adding the rental yield with the capital gain gives the total return on property investment. We can see that the total return numbers are trending down in the past few years as both rental yield and capital gain have been declining. The premium of property investment over time deposits even recorded a negative value of 0.16% (which implies a discount). Although the discount is marginal, it just does not make any sense to invest in property when time deposits can offer similar or even better returns.

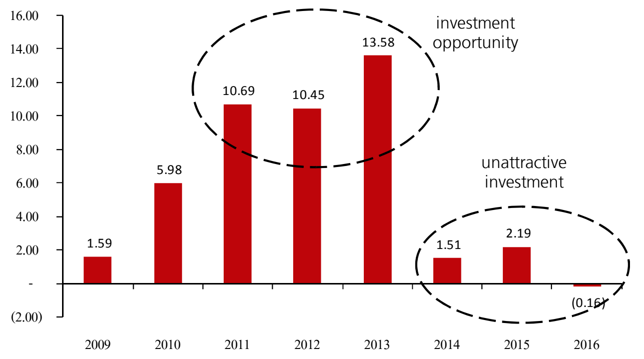
Return on property investment vs deposit rate (%)



Source: Numbeo, World Bank, DBSVI

In 2009, the property investment premium over time deposits came in at only 1.6% as the impact of the global financial crisis (GFC) was the strongest that year. In 2010, the property market started to recover, partly helped by the global commodity price rebound. During 2011-2013, the premium stood at a high of more than 10% every year. The high demand of property for investment purposes during the period had created what we dub as a 'mini bubble'. After the so-called 'mini bubble' popped, we saw a dramatic decrease in property investment premium, from over 13% to just below 2%. The three reasons behind such a dramatic drop are 1) drop in rental yield, 2) low property price appreciation, and 3) higher deposit rate.

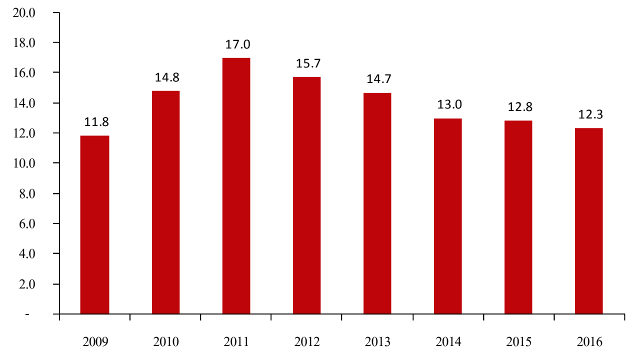
Property premium over deposit rate (%)



Source: Numbeo, World Bank, DBSVI

The market is facing oversupply of residential units…
Our data shows that rental prices are declining. This implies that there is an oversupply (primary and secondary markets combined) in the property market. We believe a lot of demand for property products during 2011-2013 came from property investors. Such demand can turn into supply when investors decide to cash out their capital gains for their property investments.

Implied rental price index



Source: Numbeo, Central Bank of Indonesia, DBSVI

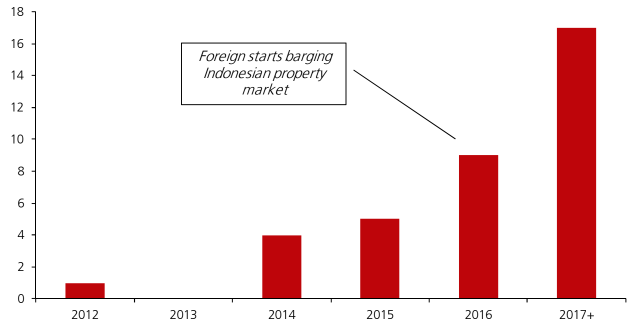
…and this is expected to continue
We expect property prices to continue to be pressured in the short term, as we still see an abundant supply of property products. We believe that the market oversupply will continue on the back of 1) market optimism on real estate demand, and 2) the incoming wave of foreign developers.

Foreign developer projects to add to supply

Rising trend of foreign projects

In 2016, there was a noticeable increase in the number of projects linked to foreign property developers. The number of such projects launched in 2016 was nine. However, from 2017 onwards (including future projects), we found that there were 17 projects being linked to foreign developers. The high number of launches in the last two years, combined with the weak demand, might put more pressure on the property industry.

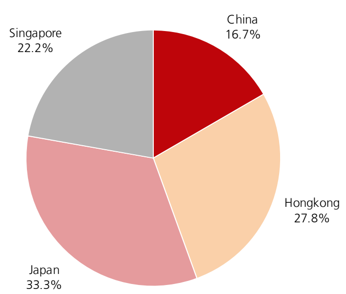
Number of foreign property projects by year



Source: DBSVI

China, Singapore, Hong Kong and Japan are among the names of developed countries that have been building their property empire in Indonesia. Especially in 2016, the number had risen significantly, doubling from 2015. These countries have quite an equal portion in the number of property projects. Based on the number of projects, our data show that Japan leads the number of property projects at 12, followed by Hong Kong and Singapore with ten and eight projects respectively. China lags behind these nations with only six projects. But it is worth noting that of these six projects, one was launched in 2016 and the remainder were launched in 2017.

Foreign developer presence in property projects (%)



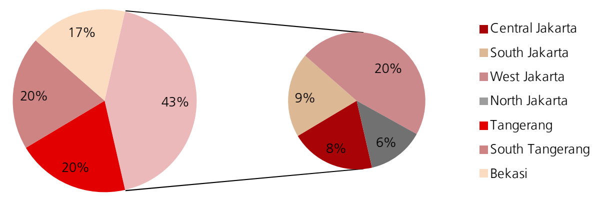
Source: DBSVI

Concentrated on the west side

Looking at the specific numbers on project distribution around the Jakarta area, some parts of Jakarta appear to be more favoured by the foreign developers for property developments. The number of projects situated in West Jakarta and Tangerang areas (west of Jakarta) is significantly higher than that of other parts of Jakarta.

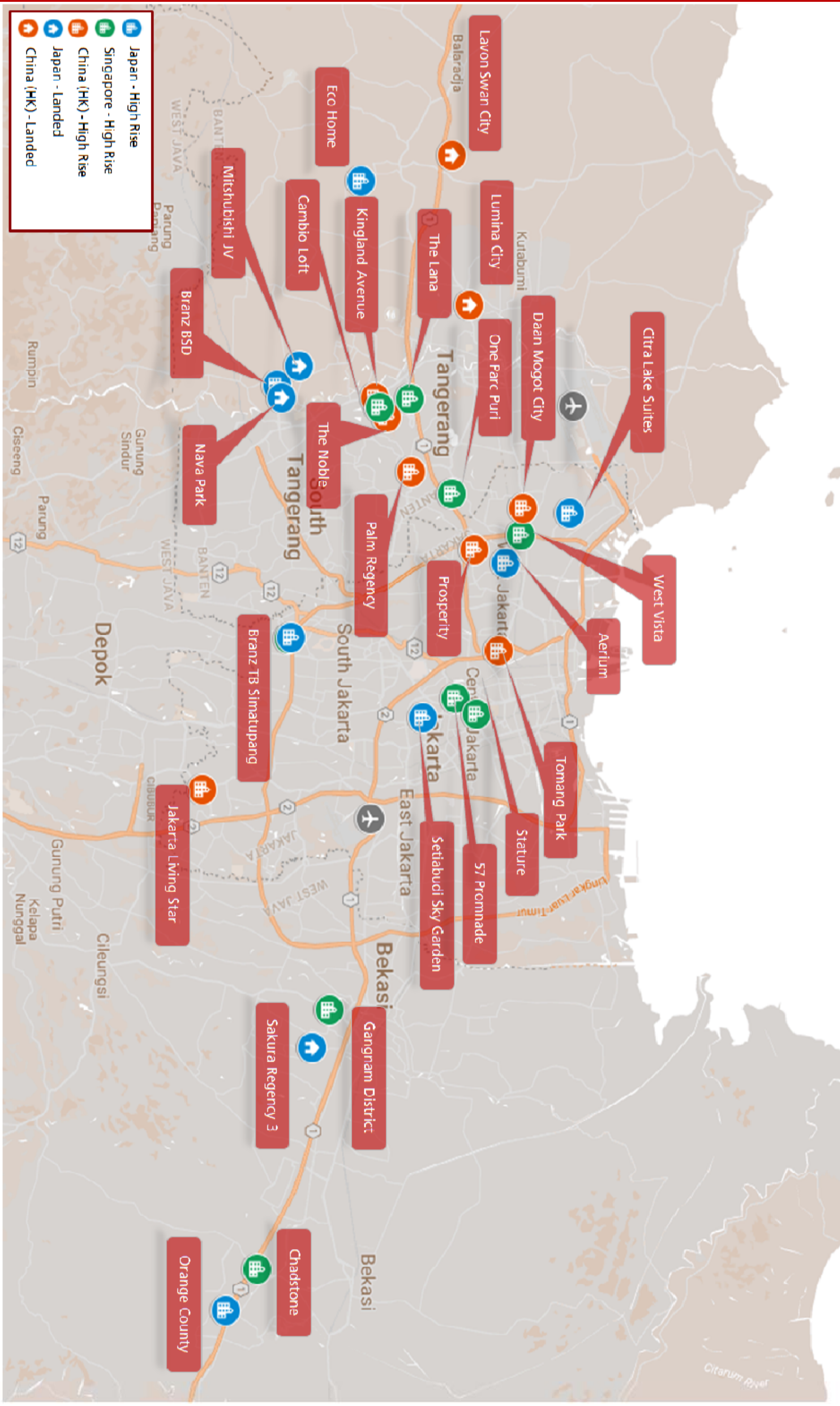
The western part of the Jakarta Greater Area accounts for 60% of total property projects linked to foreign developers. West Jakarta, Tangerang and South Tangerang have an equal share of foreign projects. Each of these areas accounts for 20% of total foreign projects. First, it is worth noting that the Tangerang area has a huge land space which can be developed; and secondly, the Tangerang area is surrounded by infrastructure developments. There are at least three infrastructure projects to be built and one is already underway. This makes the Tangerang area very accessible via central Jakarta. These infrastructure projects include 1) Serpong-Balaraja highway, an extension of JORR – Serpong highway; 2) Soekarno-Hatta – Balajara highway, these two toll road will be connected to Jakarta – Merak highway; and 3) MRT Cikarang – Balaraja.

Share of foreign-backed projects by region



Source: DBSVI

Foreign developers project map



Source: Google Maps, DBSVI

Honeymoon is over

Using 2011 as the baseline, we found that the outperformance of the property sector, relative to the JCI, has levelled off in recent times. The property sector had outperformed the JCI from 2011 till mid-2015 due to strong growth during the property boom phase. But the uptrend lasted until mid-2015 on the back of high expectations for the property sector that underpinned by the presidential election.

Property sector performance in 2013

	DBS property index	Growth
Early 2013	720	
Mid 2013	1,275	77%
Late 2013	652	-49%

Source: Central Bank of Indonesia, DBSVI

Just in time to stop the bubble

Despite the controversy surrounding its efforts to limit the growth the property sector by tightening fund disbursement from banks to property developers in 2013, we believe the Central Bank of Indonesia (Bank Indonesia) has done the right thing to prevent the formation of a bubble in the industry.

Was it a bubble in 2013? It had yet to become a bubble as we believe its formation was stopped, as mentioned earlier. Property prices did not crash, like what happened in the US during the 2008 GFC, as non-performing loans stayed at a healthy level. But, looking back to 2013, the property sector index rose by 77% in 1H, followed by a plunge of almost 50% in 2H. It was no doubt a painful fall, but if left unchecked, bubbly conditions for the property market could have taken hold.

It is hard to see signs that the honeymoon period is over

After the property sector experienced a steep fall in late 2013, this sector outperformed the JCI index once again after Joko Widodo won the presidential election in mid-2014. The market expected that infrastructure development, one of the main focuses of Jokowi, will boost property demand, not knowing that the affordability of property was declining and investors were leaving in droves. They soon realised that marketing sales did not growing during the time.

Moreover, after the government introduced a tax amnesty programme to boost tax revenues, the market again expected the government to save the property sector. But unfortunately this did not materialise as the tax amnesty programme did not translate into high marketing sales achievement.

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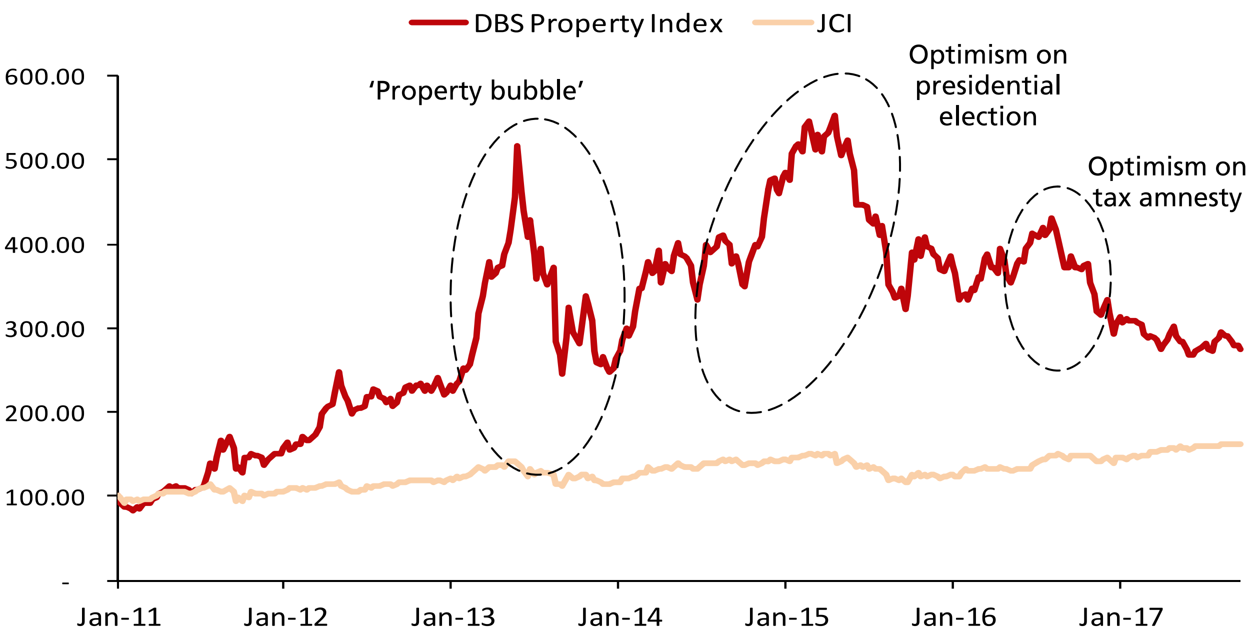
Property sector index compared to JCI (January 2011 = 100)



Source: Bloomberg Finance L.P., DBSVI
Average share price of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA

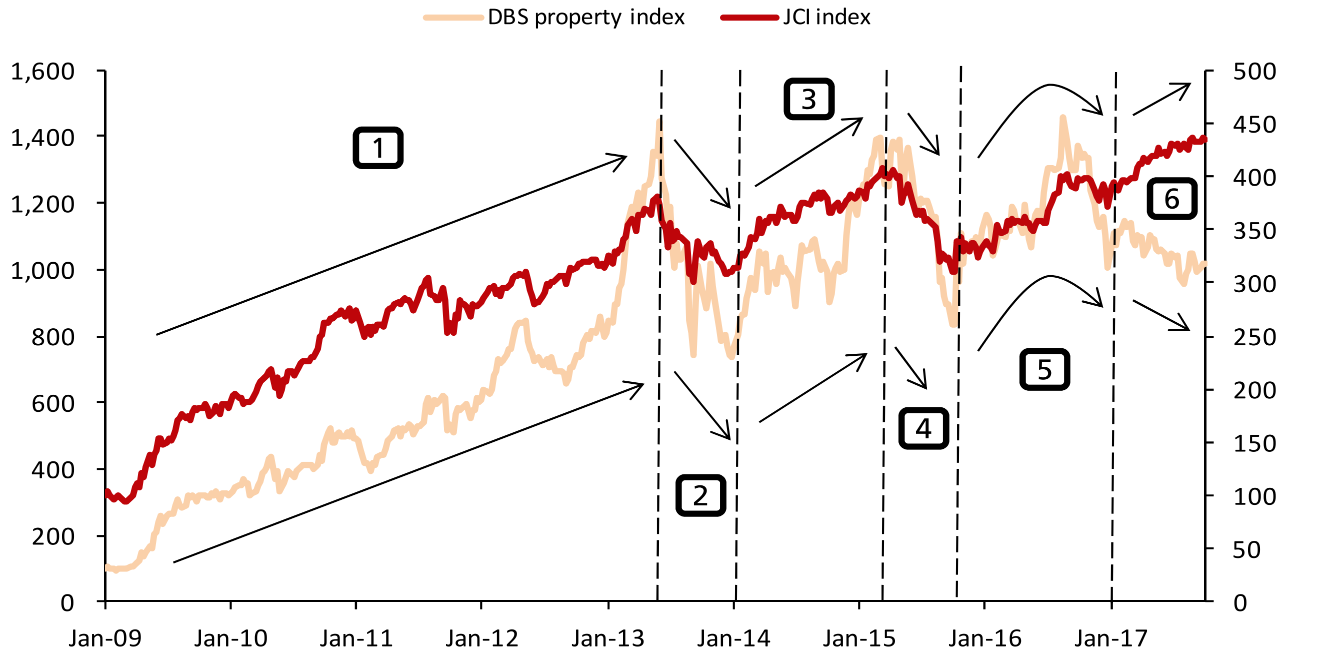
When the market finally realises…

Property sector diverged from JCI for the first time

Since early 2017, the property market has finally shown signs of divergence from the JCI's movement. They have been moving in lockstep since early 2009, after the GFC. However, since the property boom in 2011, the property sector has outperformed the JCI at all times, regardless of whether the sentiment was bad or good. Even when the property market slowed down, the property sector continued to outrun the JCI on the back of euphoria over a potential property boom. It can be seen from the Jokowi effect in 2014 and the rollout of the tax amnesty programme in mid-2016.

The divergence since early 2017 marked the tipping point, i.e. the market was beginning to have an underweight stance on the property sector, following years of disappointment. We believe this trend will not hold for long, as we believe the property sector will track the JCI in the long run. However, we do not expect the property sector to outperform the JCI in the short term, in view of the slow demand growth. A significant demand pick-up could enable the sector to outshine the JCI as the sector has been a laggard since early 2017.

Property sector stock performance compared to JCI



Source: Bloomberg Finance L.P., DBSVI

1. After the 2008 GFC, the property sector, along with the Indonesian economy, experienced solid growth and this was reflected in the share price performance of property stocks. However, from 2012-2013, the property sector has outperformed the JCI when the market believed that the sector's growth will outstrip the underlying economic growth. The optimism resulted in a huge price spike in property stocks (DBS Property Index) from Jan-May 2013, when the index rose 72.4% compared to the JCI which only gained 14.9% over the same period.

Property sector stock performance compared to JCI during 1H13

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
Jan-13	1160	846	955	630	260	1040	815	4410
May-13	2200	1514	1400	1060	420	1840	1406	5069
Δ	89.7%	79.0%	46.6%	68.3%	61.5%	76.9%	72.4%	14.9%

Source: Bloomberg Finance L.P., DBSVI

2. The Central Bank of Indonesia did the right thing when it imposed new regulations to stop the property euphoria. The new regulation to tighten LTV and loan disbursement, combined with a slowing economy, has resulted in a free fall of the property sector index in particular and the JCI in general. The DBS Property Index (DPI) and the JCI plunged by 48.5% and 16.9%, respectively, from May 2013 to end-2013. The free fall had resulted in the DPI and JCI dropping by 11.2% and 4.5%, respectively, in 2013.

Property sector stock performance compared to JCI during 2H13

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
May-13	2200	1514	1400	1060	420	1840	1406	5069
Dec-13	1240	718	790	430	265	900	724	4213
Δ	-43.6%	-52.6%	-43.6%	-59.4%	-36.9%	-51.1%	-48.5%	-16.9%

Source: Bloomberg Finance L.P., DBSVI

3. The presidential election in 2014, in which Joko Widodo ended up being elected as the new president, had fuelled the stellar rise of property stocks, no thanks to the market's high expectations. The market believed that the Jokowi programme to accelerate infrastructure development could boost Indonesia's economy as a whole and of course, the property sector in particular. The property sector, apparently in a new phase of euphoria, had outshone the JCI once again by surging 75% relative to the JCI's 28% ascend over the period of Jan 2014 till Feb 2015.

Property sector stock performance compared to JCI amid the Jokowi effect

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
Jan-14	1290	777	820	445	280	900	752	4258
Feb-15	2220	1460	1815	670	550	1180	1316	5450
Δ	72.1%	87.9%	121.3%	50.6%	96.4%	31.1%	75.0%	28.0%

Source: Bloomberg Finance L.P., DBSVI

4. Economic conditions failed to improve. Actually, conditions become worse with GDP growth coming in below 5%, the lowest in the last five years. Consequently, the JCI dropped by 22.8% from Feb-Sep 2015, coupled with the property sector's 35.3% plunge.

Property sector stock performance compared to JCI during periods of sluggish economic growth

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
Feb-15	2220	1460	1815	670	550	1180	1316	5450
Sep-15	1370	811	1150	330	345	1100	851	4209
Δ	-38.3%	-44.5%	-36.6%	-50.7%	-37.3%	-6.8%	-35.3%	-22.8%

Source: Bloomberg Finance L.P., DBSVI

5. Economic conditions started to improve in early 2015. The JCI and property sector seemed to be chugging along well until the appointment of the new Minister of Finance who was expected to make the tax amnesty programme a success. The market has not moved on from the euphoria in the previous property boom cycle and this had caused the property sector index to outrun the JCI once again, no thanks to expectations of funds stemming from the tax amnesty programme being diverted to real estate. The tax amnesty programme disappointed the market with marketing sales failing to show much improvement. This served as a wake-up call for some market participants who had subscribed to the euphoria of an impending property boom.

Property sector stock performance compared to JCI during times of economic stability and the rollout of tax amnesty

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
Sep-15	1370	811	1150	330	345	1100	851	4209
Sep-16	2200	1590	1755	462	675	990	1279	5365
Δ	60.6%	96.1%	52.6%	40.0%	95.7%	-10.0%	50.3%	27.4%

Source: Bloomberg Finance L.P., DBSVI

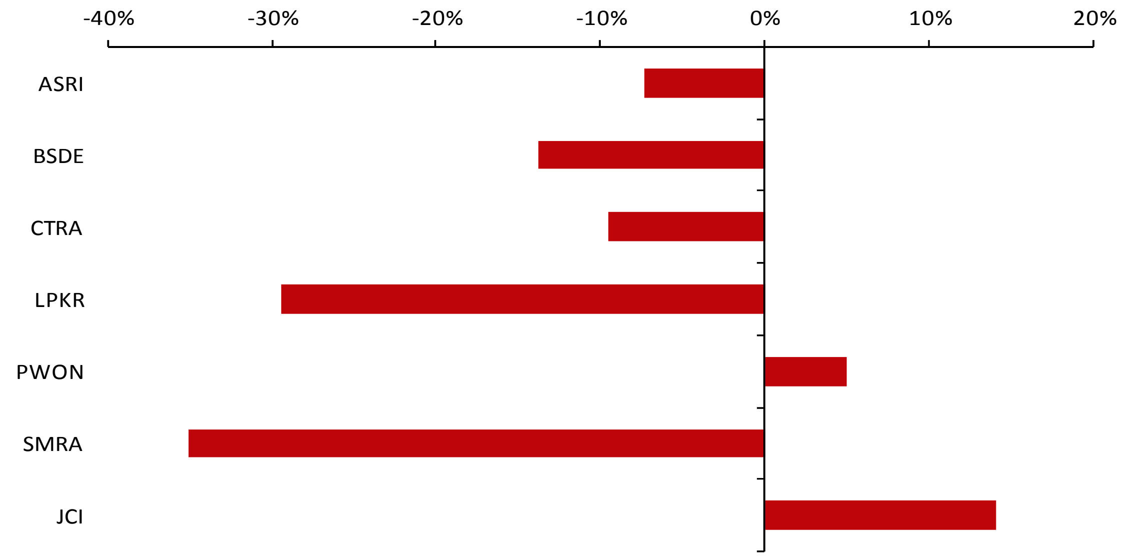
6. From early 2017 till recently (for the first time since 2009), the property sector index has started to diverge from the JCI. We believe the market has grown weary of the property sector, which has failed to deliver material improvements during periods of high expectations in the past few years. We believe the DPI-JCI divergence will continue as the fundamentals of the property sector remain weak.

Property sector stock performance compared to JCI YTD (Jan-Sep 2017)

	BSDE	CTRA	SMRA	ASRI	PWON	LPKR	DPI	JCI
Jan-17	1845	1305	1355	380	605	780	1045	5347
Sep-17	1770	1195	1065	378	610	725	957	5901
Δ	-4.1%	-8.4%	-21.4%	-0.5%	0.8%	-7.1%	-8.4%	10.4%

Source: Bloomberg Finance L.P., DBSVI

YTD property stock and JCI performance



Source: Bloomberg Finance L.P., DBSVI

Critical factors for property sector

Critical data points to watch

The property sector has been underperforming over the last few years. The most asked critical question is when the sector will (really) recover. Will this take place in the short term or next year? Our analysis suggests that there are three critical data points to watch. They are marketing sales, property price growth, and mortgage rate. Marketing sales and property price growth move in tandem with property counters' share price performance. On the other hand, mortgage rate has an inverse relationship with share price performance.

Our analysis of the three critical factors shows that it will be hard for property sector to recover next year, let alone in the short term. Our view is premised on:

1. Marketing sales have improved rather slowly and are still far below the peak level in 2013-2014
2. Property price growth has recovered in 2017 but it is still below the expected returns for such an illiquid asset
3. Mortgage rate has been declining but this has not been able to fuel strong demand growth

Marketing sales trend will determine property sector direction

Marketing sales will translate into revenue which in turn will determine the profitability of property companies. Analysing marketing sales trends could probably reveal the general share price direction of property counters.

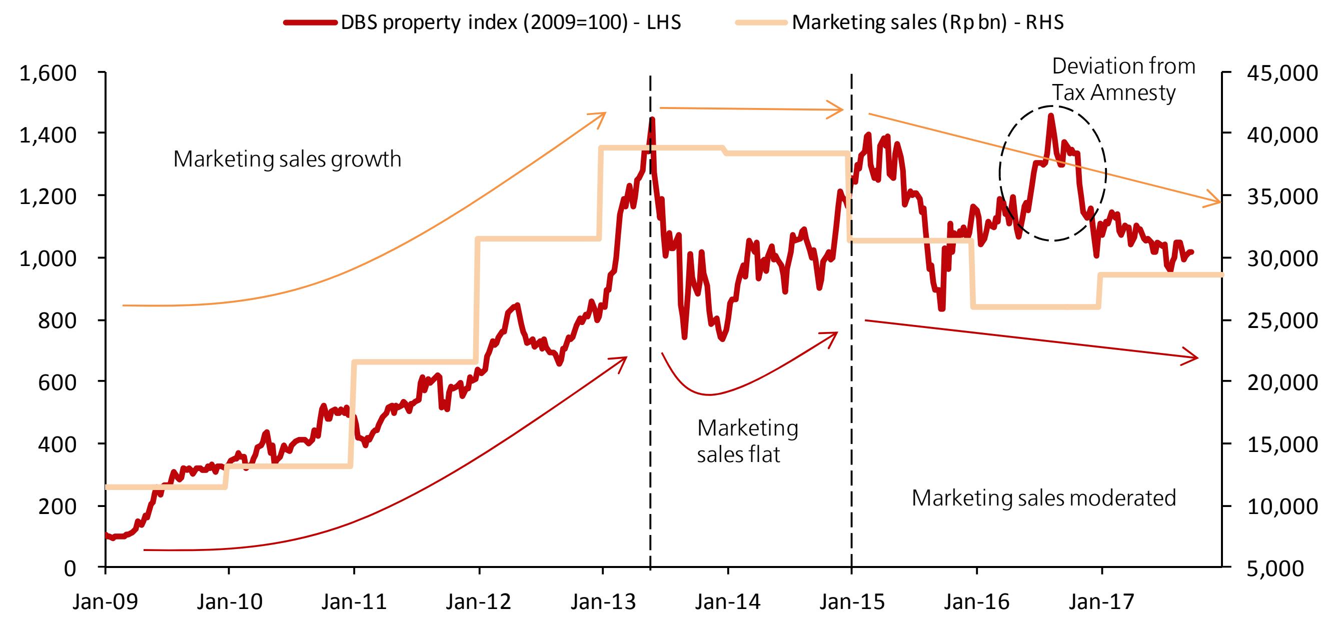
The declining trend of marketing sales since peak in 2013-2014 has put the sector under pressure. Although demand has recovered in 2017, we are cognisant of risks that could derail the rebound.

The warning signs include:

1. Marketing sales have been supported by more land plot sales
2. Taking into account the 200bps interest rate cut since 2016, the pick-up in demand appears to be rather slow

With the pick-up in demand expected to be sluggish for the coming years, we believe the share price upside potential for the property counters should be pretty limited.

Marketing sales vs property sector

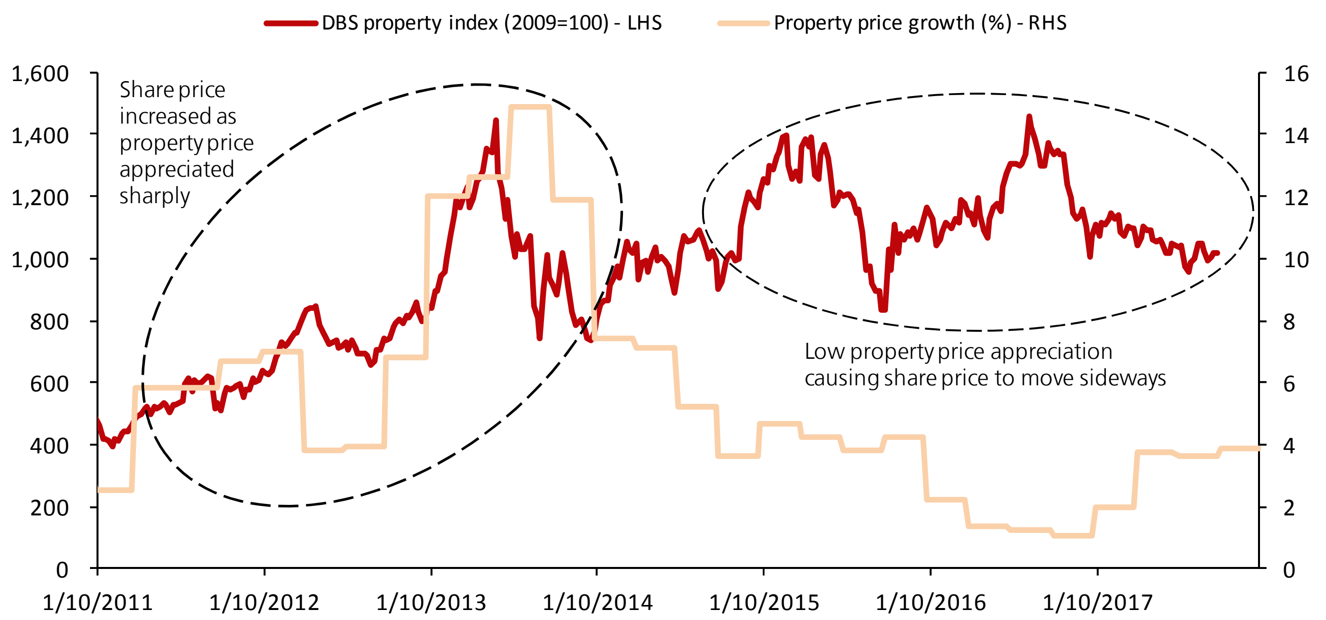


Source: Company, Bloomberg Finance L.P., DBSVI

Property price growth does not bode well for share price
We deem property price growth as one of the drivers for the property sector's share price performance. During periods of property boom, property prices will skyrocket as demand outstrips supply. Once the market slows down, property price growth will be sluggish due to the illiquid nature of this asset class.

Notwithstanding the positive macro sentiments stemming from the presidential election in 2014 and the tax amnesty programme in 2016, the property sector index has retraced to more reasonable levels to reflect the tepid property price appreciation. We believe property prices will remain muted in the short term, thus limiting any potential share price upside for the sector.

Property price growth vs property sector



Source: Central Bank of Indonesia, Bloomberg Finance L.P., DBSVI

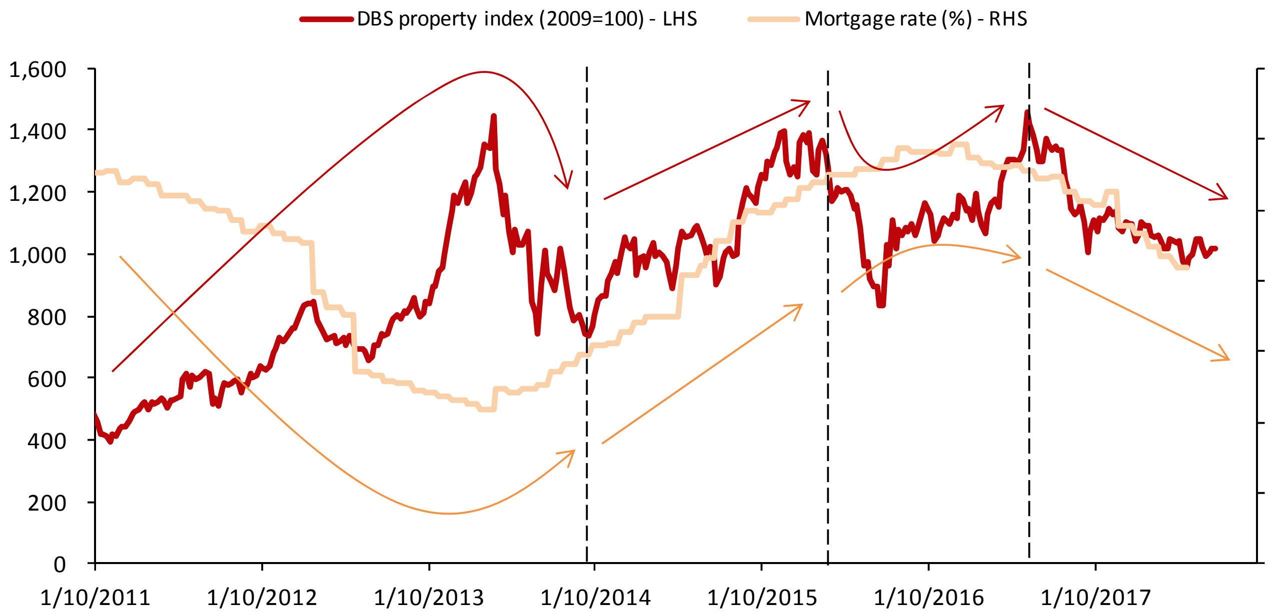
Mortgage rate fails to lift property sector
Theoretically speaking, mortgage rate has an inverse relationship with property demand. Therefore, mortgage rate should also move inversely with the share price of property counters, as higher demand will translate into better marketing sales and thus a higher share price. Historical data has shown mixed results. Anomalies were seen during the episode of the presidential sentiment boost in 2014 and after the disappointment results of the tax amnesty programme.

The Central Bank of Indonesia has tightened the LTV ratio and increased the reference rate in 2013, causing the then over-accelerating property sector to encounter some speed bumps. Since then, mortgage rate has gradually increased. Nonetheless, the strong sentiment arising from the presidential election in 2014 had helped buoy the property sector despite the mortgage rate hike.

Since 2016, the Central Bank of Indonesia has its cut reference rate by 200bps and the mortgage rate has been lowered accordingly. Unfortunately, the share price of property counters has trended down in spite of the mortgage rate cuts. As mentioned earlier, since early 2017, the property sector's direction has finally diverged from the JCI's, by trending down in spite of the broader market's buoyancy.

With limited room for another rate cut, we expect the divergence to continue. Our outlook for interest rate next year in Indonesia revolves around our base-case scenario of one hike by the Central Bank of Indonesia.

Mortgage rate movement vs property sector



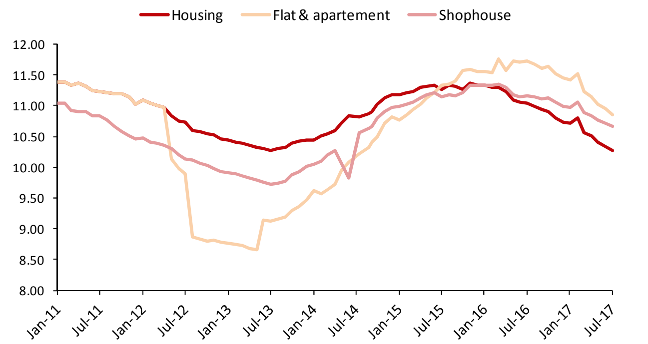
Source: Central Bank of Indonesia, Bloomberg Finance L.P., DBSVI

Beware of speed bumps

Boosting property sector via mortgage rate reduction

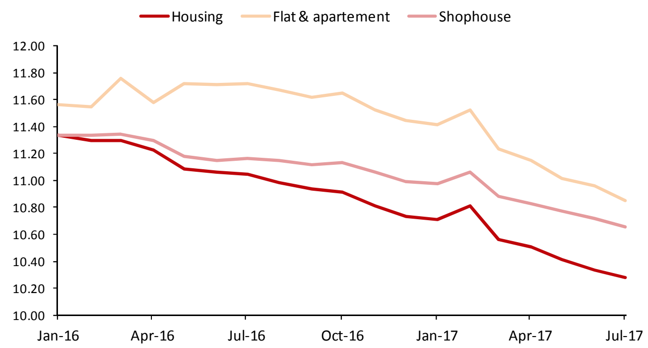
Since 2016, the Central Bank of Indonesia has cut interest rate by 200bps to boost economic growth as well as the property sector. The interest rate cut has translated into lower mortgage rates for all property products. The lower mortgage rate can provide some relief to sluggish property demand. But it also comes with a drawback, i.e. diminished quality of loan disbursement.

Trend of mortgage rate (2011 to mid-2017)



Source: Central Bank of Indonesia, DBSVI

Trend of mortgage rate (2016 to mid-2017)



Source: Central Bank of Indonesia, DBSVI

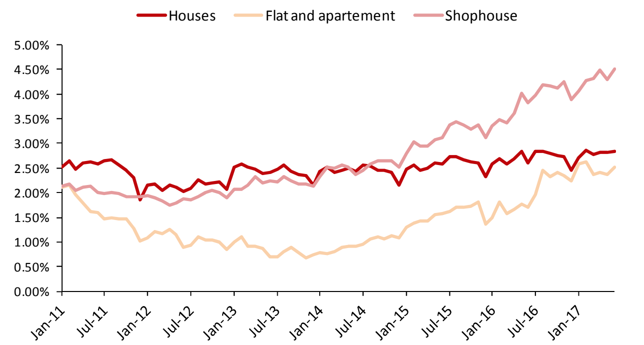
Non-performing loan trend is at all-time high...

Non-performing loans (NPLs) can be used to gauge whether during property booms, such as the one in 2011-2013, buyers have healthy financial standing or over-leveraged themselves financially. Historical data shows very clearly that after the Central Bank of Indonesia introduced restrictions on the property sector, the NPLs of the property sector trended up. This trend can be seen for high-rise residential and shophouse units, as both are perceived as superior investment vehicles. The NPL increase for landed residential property was less stellar compared to other properties, as end-user buyers tend to buy landed houses for their own occupation. The rising NPL trend could also be explained by the action of some speculators who bought properties during boom times by over-leveraging their financial position in the hope of making quick capital gains. When property price appreciation decelerates and there is not much real demand to absorb incoming supply, NPLs would naturally head north.

While landed houses have performed better vs high-rise residential and shophouse units in the area of NPLs, the NPL ratio for the landed segment still stood at 2.83% as of end-Jun 2017 – which is above its historical average of 2.49%. As of end-Jun 2017, the NPL for flats and apartments stood at 2.52% while that for shophouse units at 4.51% – the NPL levels were well ahead their respective averages of 1.42% and 2.74%.

The following NPL graph shows that the overall NPL ratio for the property sector is now at an all-time high. Now, you should understand why the Central Bank of Indonesia intervened by increasing the LTV ratio.

Non-performing loans (NPLs) of property sector



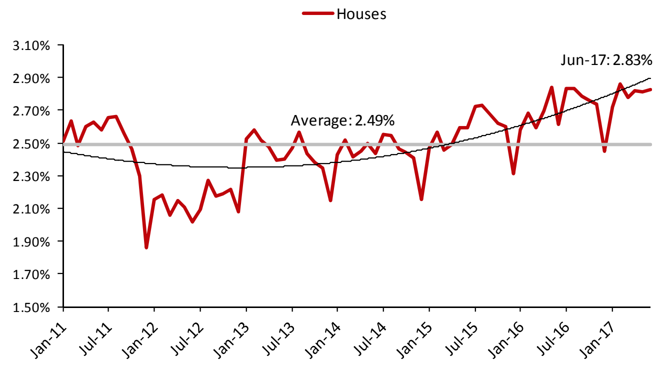
Source: Central Bank of Indonesia, DBSVI

…but a full-blown crisis is not anticipated

Fortunately, we have good news to counterbalance all the negative factors highlighted earlier. Despite NPLs being at an all-time high level, we believe that the current property slump will not develop into a crisis, at least not anytime soon. Our thesis is premised on the fact that landed residential units still make up the bulk of property mortgages at 90% as of end-Jun 2017 in terms of value. Recall that the landed residential segment has the best NPL performance in the property sector on a relative basis.

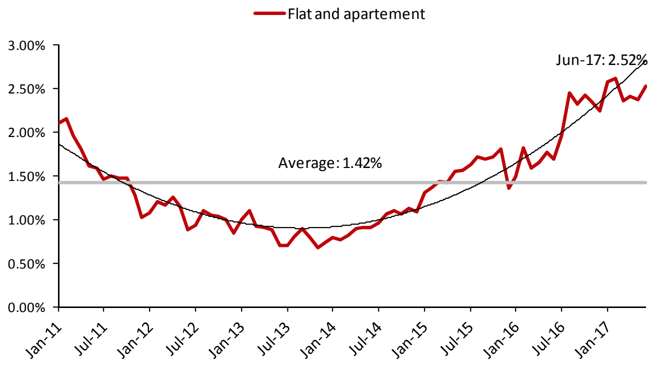
Although the NPL ratios of flats and apartments as well as shophouses are almost double their averages, they contribute only 3% and 7% to total mortgages respectively. Though we are still far from seeing a crisis, the NPL trends should be monitored closely. The rising trend of NPLs should limit bank mortgage disbursements to the property sector. The government could come up with policies to encourage mortgage disbursements to help the property sector, but investors need to be cautious of the speed bumps that lie ahead. If such speed bumps materialises, a painful property market crash could potentially await investors who have an overly optimistic stance on the property sector.

Non-performing loans (NPLs) of landed houses



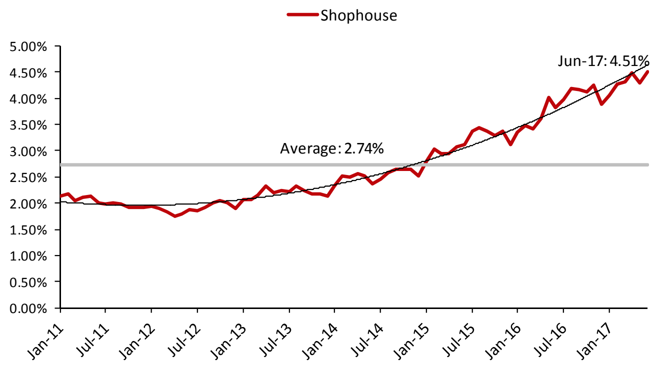
Source: Central Bank of Indonesia, DBSVI

Non-performing loan (NPLs) of flats and apartments



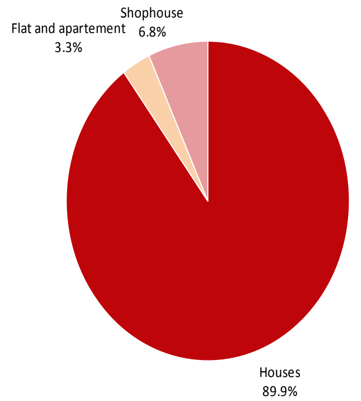
Central Bank of Indonesia, DBSVI

Non-performing loans (NPLs) of shophouses



Central Bank of Indonesia, DBSVI

Contribution to total mortgages



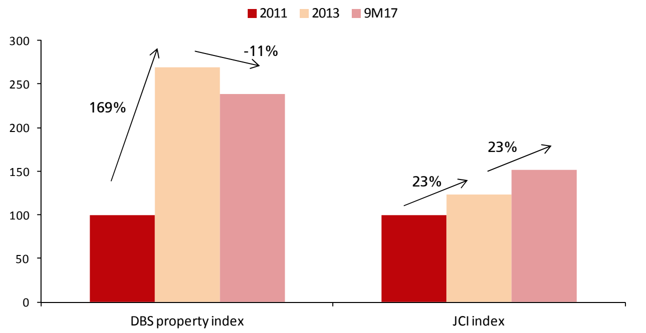
Central Bank of Indonesia, DBSVI

Negatives not fully reflected in share price

Performance gap is narrowing

Based on the 2011 average share price, property stocks still outperformed the JCI as of end-September 2017. This is mainly due to the significant 169% jump in the DBS Property Index (DPI) during the 2011-2013 property boom period, while JCI only rose by 23% over the same period. Since early 2015, we found that property stock prices have steadily underperformed the JCI, thus narrowing the DCI outperformance gap driven by the property boom. We expect the sector to continue underperforming given its weak market outlook in the near future.

Average share price of property sector and JCI (2011=100)



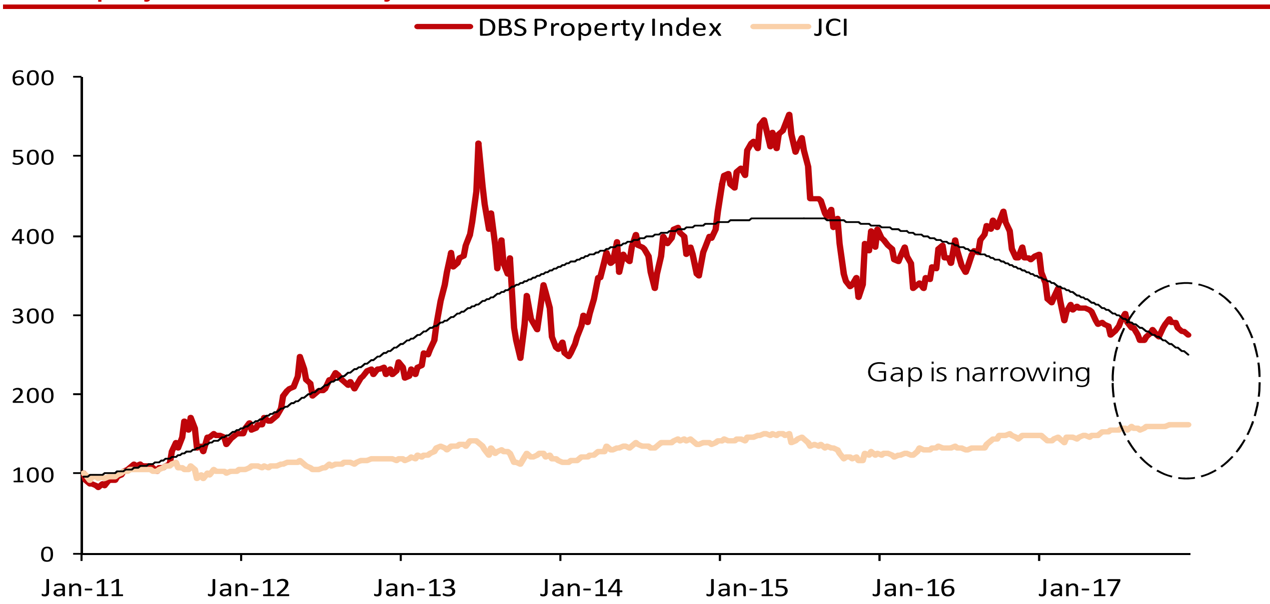
Source: Central Bank of Indonesia, DBSVI

Discount to RNAV in the last five years still lower than 2008-2009 period

We found that the last 5-year average discount to RNAV is still lower than in the 2008-2009 period when the Global Financial Crisis occurred. Even though we do not expect the discount to reach a new all-time high, as the current economic conditions are obviously better, there is still room for the share price of property counters to be discounted even further from the current levels.

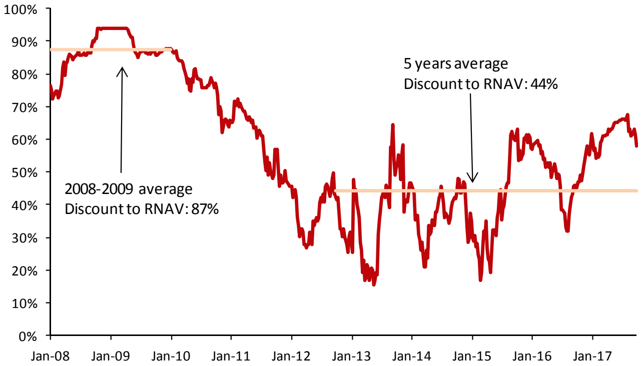
There is a significant gap between the current and record-high discount to RNAV for ASRI, BSDE, and SMRA. These developers are focused on developing the Tangerang area. In our view, the significant land price appreciation in the Serpong area during the previous property boom had worked in the favour of these three players, as most of their assets had increased in value. PWON's discount to RNAV is the lowest among property developers because it has been the preferred stock during times of weak marketing sales achievement. Note that PWON enjoys the privilege of deriving half of its revenue from its investment properties.

DBS Property Index vs JCI (January 2011 = 100)



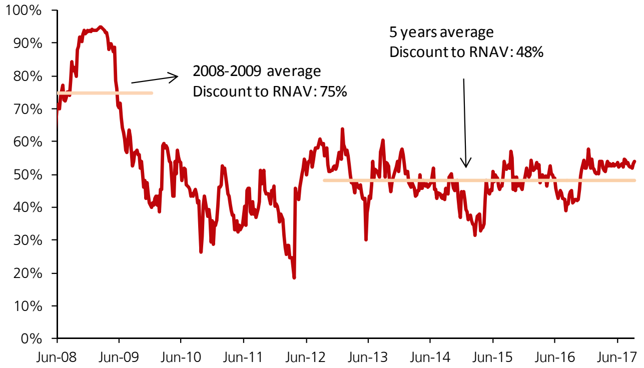
Source: Bloomberg Finance L.P., DBSVI
Average share price of APLN, ASRI, BSDE, CTRA, LPKR, PWON, SMRA

ASRI's historical discount to RNAV



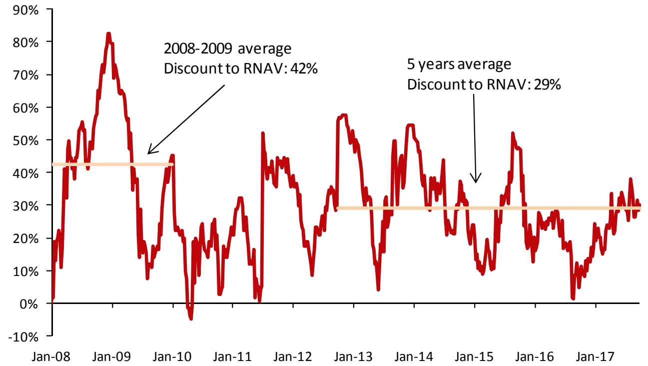
Source: Bloomberg Finance L.P., DBSVI

BSDE's historical discount to RNAV



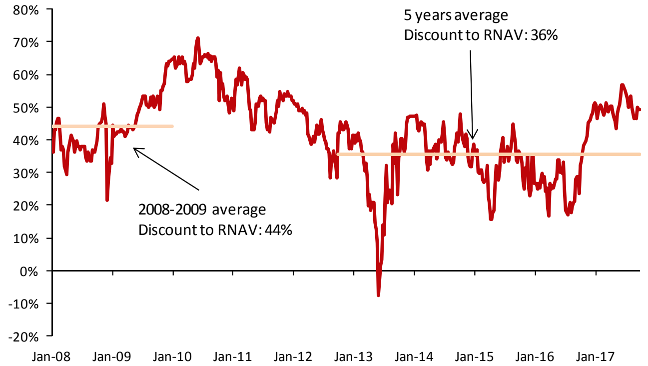
Source: Bloomberg Finance L.P., DBSVI

CTRA's historical discount to RNAV



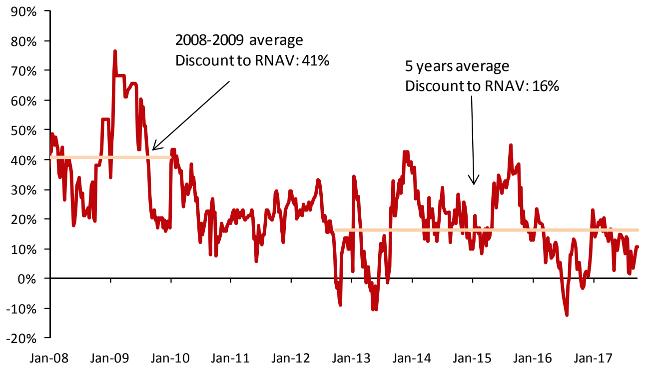
Source: Bloomberg Finance L.P., DBSVI

LPKR's historical discount to RNAV



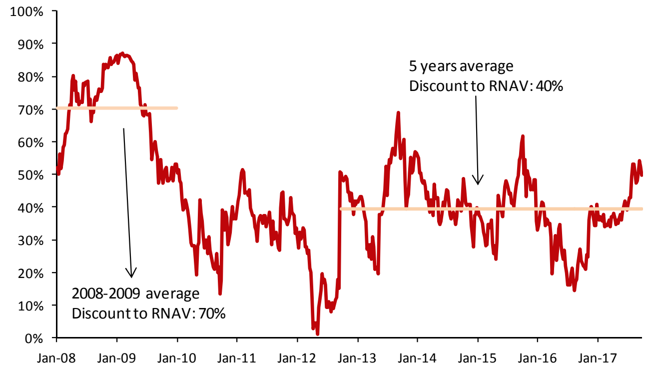
Source: Bloomberg Finance L.P., DBSVI

PWON's historical discount to RNAV



Source: Bloomberg Finance L.P., DBSVI

SMRA's historical discount to RNAV



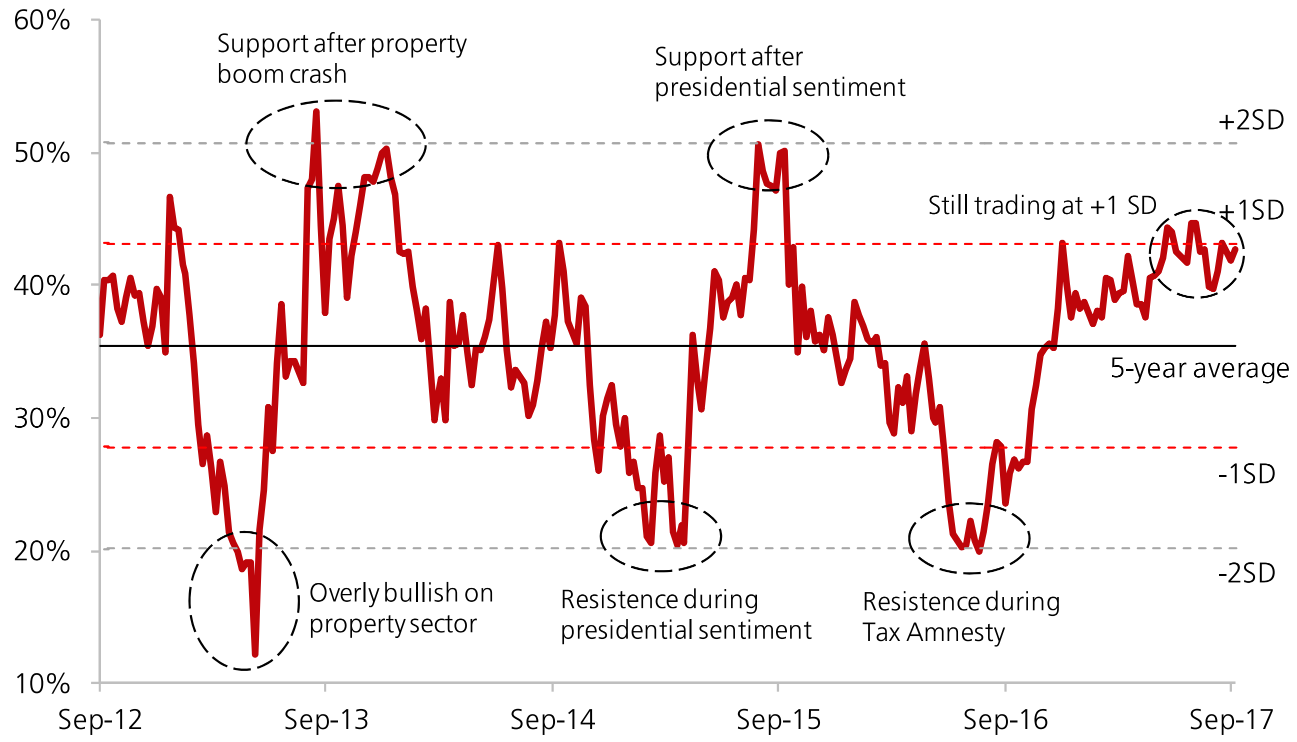
Source: Bloomberg Finance L.P., DBSVI

Property sector is currently trading at +1SD discount to RNAV
The property sector is currently trading at a cheap valuation level, at +1SD of its 5-year average Discount to RNAV. Marketing sales have improved in 2017, but still below what everyone had expected last year. We believe the sector has been punished by the disappointment over the tax amnesty programme. The programme was expected by most people to boost property demand but unfortunately the huge spike did not materialise.

Discount to RNAV has been moving in 2SD band over the past five years
Although the sector appears to be cheap, its historical discount to RNAV suggests otherwise. Strong support/resistance levels are apparent at the +/-2SD levels (relative to the 5-year average for discount to RNAV). Only the property boom in mid-2013 had resulted in the -2SD level being meaningfully broken.

As the sector is trading at +1SD discount to RNAV, we believe there is still potential downside for the sector – especially after the negative sentiment due to the tax amnesty programme letdown had pushed the sector's discount to RNAV to near +2SD. The downside potential, however, is capped at the +2SD support level, in our view.

Discount to RNAV band



Source: Bloomberg Finance L.P., DBSVI

Stock pick – defensive stock

We believe defensive stocks is a safe bet when demand slows
Our main top pick is BSDE, as it appears to enjoy competitive advantages arising from its strong balance sheet and profit margins. Coupled with its huge land bank, we believe BSDE could still do well in a weak demand environment.

We prefer high operating margins that can offset future revenue weakness...
We expect revenue from development properties to trend down, in tandem with the marketing sales trend in the past few years (the impact depends on the proportion of development properties vs investment properties). As such, we prefer companies with high operating margins to offset the impact of lower revenue for maintaining profitability.

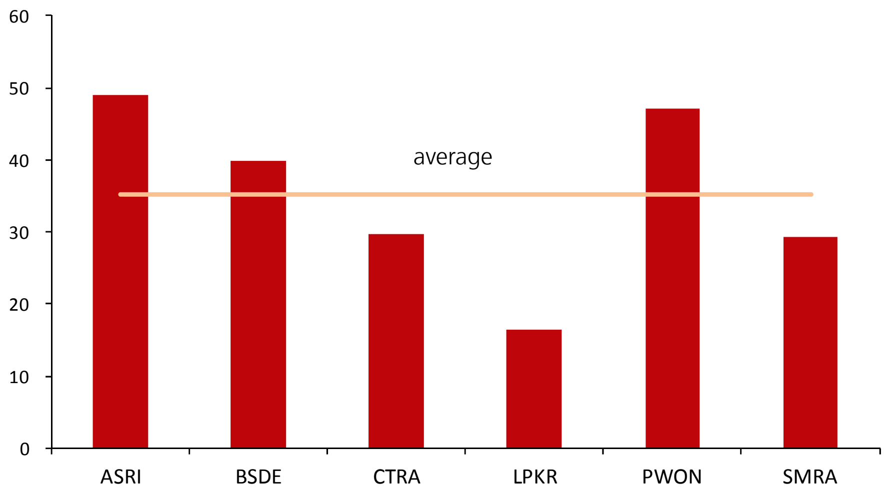
We noticed that during periods of property slowdown ASRI, BSDE and PWON's operating margin outperformed its peers. ASRI and BSDE's margin were helped by their land plot sales, which yield high margins given that such land plots were acquired a long time ago. PWON's margin was above the average due to of the fact that half of its revenue is recurring income and it is involved in upmarket developments.

…and low gearing to maintain healthy cash flow...
During slow demand environments, high gearing will not only weigh on to a company's earnings, but also limit its expansion and flexibility in setting terms of payment. To accommodate growth, developers need to sell the right products to the right segments. This can be achieved via new product launches or more appealing terms of payment, in our view. Both options come with cash flow burden that could lead to developers needing a capital injection to top up working capital.

Our top pick, BSDE has a strong balance sheet by virtue of its lowest net gearing among peers. This allows the company to launch new projects and give more attractive terms of payment without putting too much strain on its cash flow.

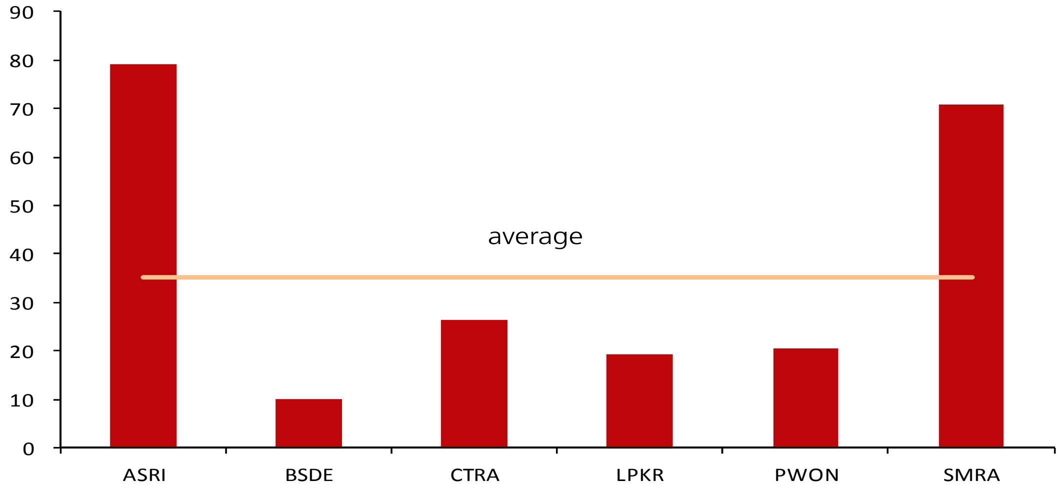
…with huge land bank to support both margins and gearing level
With a huge land bank, BSDE can sell land plots to maintain its profit margins and net gearing levels at the same time. Given that most of its land bank is located in the BSD city area, most of its asset value has been unlocked by the first two development phases, in our view.

Average operating profit margin in 1Q14-3Q17 (%)



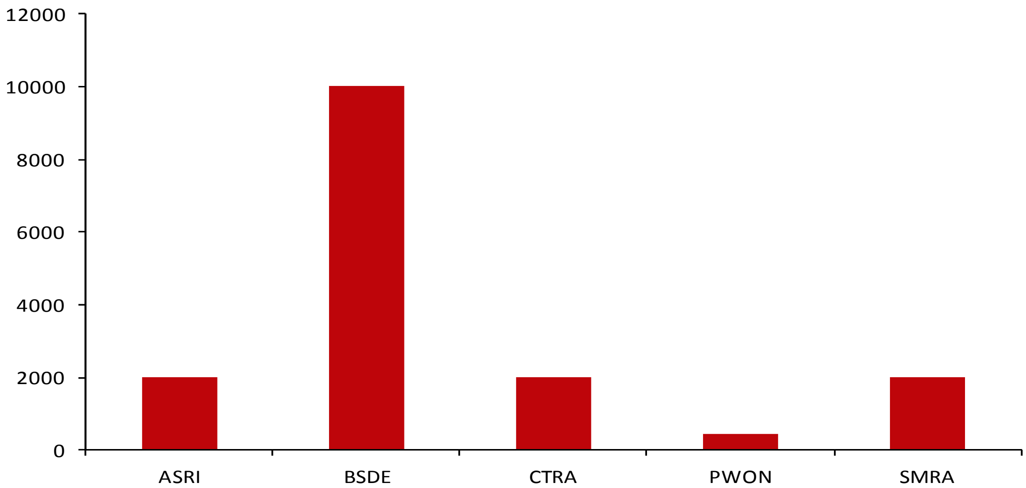
Source: Bloomberg Finance L.P., DBSVI
**LPKR (1Q14 – 2Q17)*

Net gearing as at end-September 2017 (%)



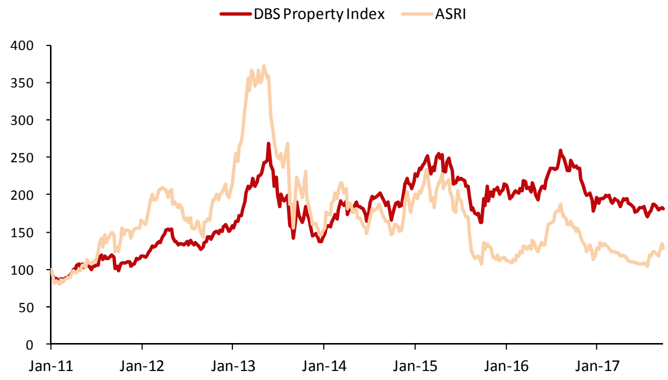
Source: Bloomberg Finance L.P., DBSVI
**LPKR (as end of June 2017)*

Property developers' land bank (ha)



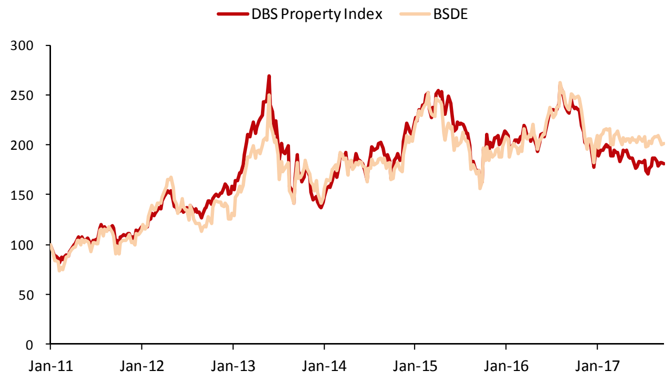
Source: Kontan, DBSVI

ASRI's stock performance



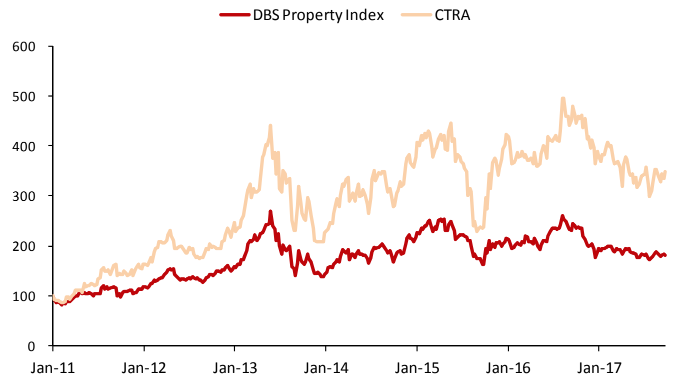
Source: Bloomberg Finance L.P., DBSVI

BSDE's stock performance



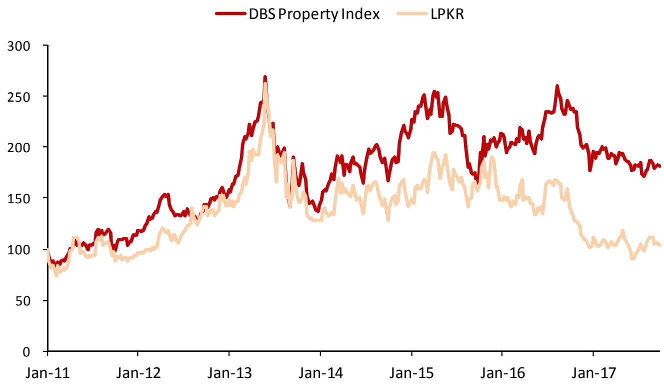
Source: Bloomberg Finance L.P., DBSVI

CTRA's stock performance



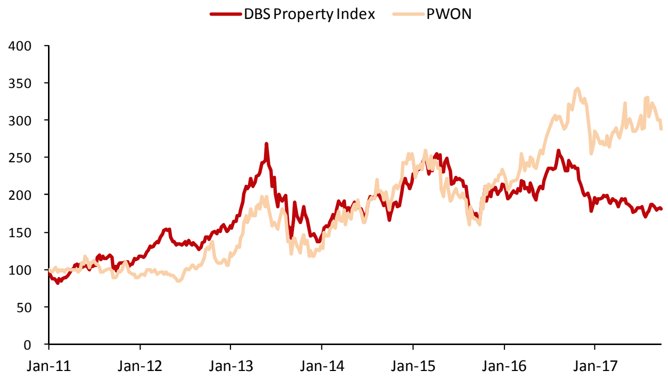
Source: Bloomberg Finance L.P., DBSVI

LPKR's stock performance



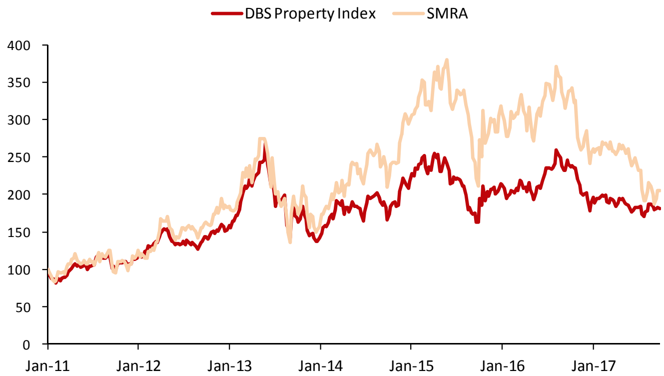
Source: Bloomberg Finance L.P., DBSVI

PWON's stock performance



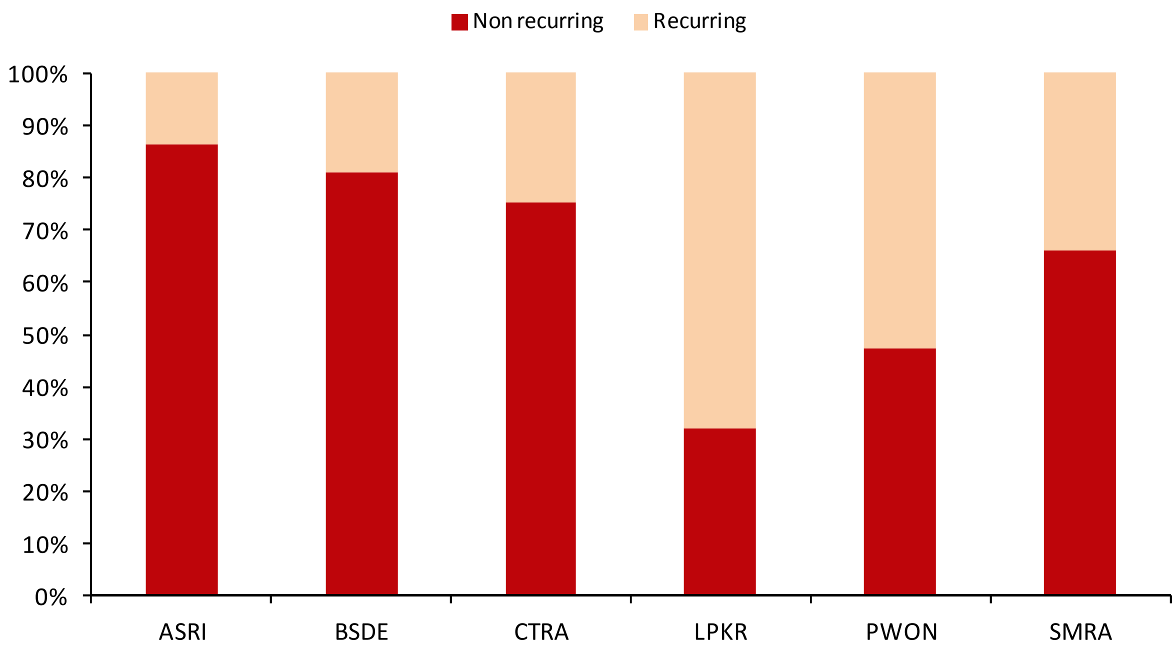
Source: Bloomberg Finance L.P., DBSVI

SMRA's stock performance



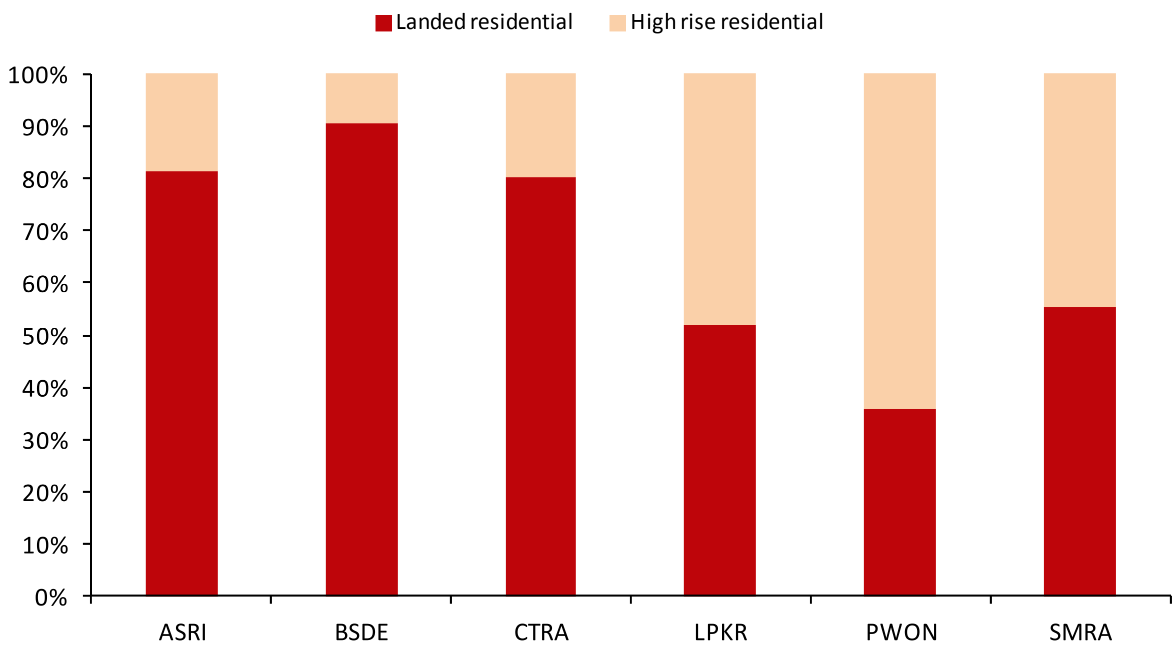
Source: Bloomberg Finance L.P., DBSVI

Revenue mix of property developers



Source: Company, DBSVI

Non-recurring revenue mix



Source: Company, DBSVI

APPENDIX

Appendix 1: Foreign ownership regulation

Equality in high-rise residential unit ownership
The latest media reports suggest that government is, once again, planning to relax the foreign ownership rules for properties in Indonesia by allowing foreigners to own the 'right to build' title (i.e. Hak Guna Bangunan). This allows foreigners to have the same level of ownership rights as local citizens as the previous 'right to use' title (i.e. Hak Pakai) was perceived as being inferior to the 'right to build' title. Banks also prefer to have 'right to build' rather than 'right to use' titled as collateral, thus reinforcing the inferiority of the 'right to use' title. There is no information on title changes for landed residential properties yet. Even if foreigners are allowed to have the 'right to build' title for landed houses, it would still be inferior to the 'right to own' title which can only be obtained by local citizens.

Will this new title right be implemented?
We believe the plan to implement the relaxation of foreign ownership is still in the early stages as the draft regulation needs to be discussed in parliament. To give foreigners the 'right to build' title also contradicts the Basic Agrarian Law (UUPA No. 5 / 2016), which was inherited from Netherland's laws. We believe the implementation will not be as easy as creating another Ministry of Agrarian and Spatial Planning Regulation, like what the previous relaxation entailed. The government needs to amend the Basic Agrarian Law as Article 36 No.1 states that only the following entities may possess the 'right to build':

1. Indonesian citizens
2. Indonesian corporations that are domiciled in Indonesia

Will the new regulation boost property demand?
Even if the new regulation to give foreigners the 'right to build' title is implemented, we believe that it will not have a significant impact on property demand. Our concerns revolve around 1) the 'right to use' title is not a factor that is holding back property purchases by foreigners, and 2) the additional potential demand from foreigners is not high to begin with.

'Right to use' title is not holding back property purchases by foreigners
Based on our channel checks, we believe that foreigners' concerns over buying properties in Indonesia revolved around the restriction on selling their properties if they lose their right to buy (i.e. not working in Indonesia anymore) for a grace period of one year. This restriction, combined with the minimum price rule, has created a potent hurdle for foreigners in purchasing property, in our view.

This restriction, however, is in line with the government's intention to ensure adequate local demand by limiting the ability of foreigners to buy properties for investment/speculative purposes. It will prevent property prices from reaching bubbly levels due to investment by foreigners, thus giving rise to more healthy demand in the long run. As long as this restriction is intact, we believe the regulation to allow foreigners to have the 'right to build' title will not have a significant impact on property demand.

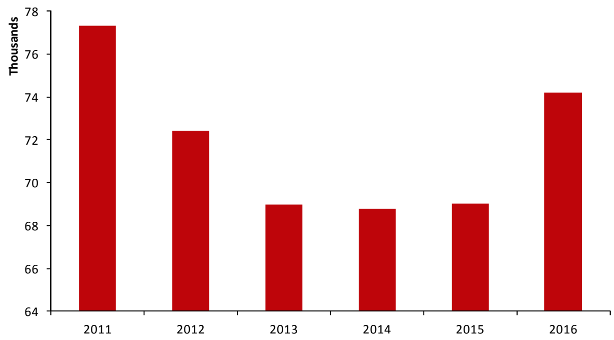
The additional potential demand is not high to begin with
According to the Ministry of Manpower, there were 74,183 foreign workers in Indonesia as of end-2016. Although there could be many more that came through illegal channels, we believe that only legal workers are permitted to buy property. The 74K foreign workers only constitute c.0.05% of total Indonesian workers. The number of foreign workers may look small at first glance but the number can be quite significant if translated into value.

Assuming that all the 74K foreign workers buy apartments at the minimum price in Jakarta, which is Rp3bn, it would generate sales of more than Rp200tr. This might not be translated directly to marketing sales, considering that the Agrarian and Spatial Planning Minister`s Regulation 29/2016 allows foreigners to buy secondary properties. Unfortunately, we do not think property demand from foreigners will surge as: 1) not all foreigners want to stay permanently in Indonesia, and 2) there is no significant difference between the 'right to build' and 'right to use' titles.

As mentioned earlier, the government's restriction on foreign purchases of properties has led to low foreign ownership. Foreigners can pose significant liquidity risks when they lose their right to buy (i.e. returning to their home country). In such cases, they will be forced to transfer their ownership within one year. Considering that there is a minimum price for properties that they can own, it can be difficult for them to sell their properties within one year. We would also like to highlight that the accommodation of most foreigners is paid by their employers. This significantly reduces the need of foreigners to buy their own abodes.

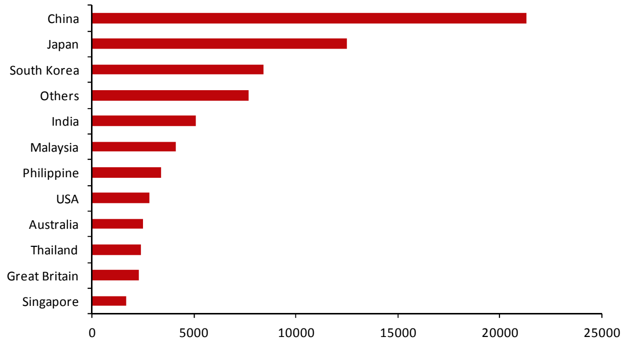
We believe that there is no significant difference between the 'right to build' and 'right to use' titles, as both: 1) have a limited lifespan, 2) can be used as collateral, and 3) can be transferred/sold.

Number of foreign workers in Indonesia



Source: Ministry of Manpower, DBSVI

Country of origin of foreign workers



Source: Katadata (as of Nov'16), DBSVI

Comparison between 'right to use' and 'right to build'

	right to use	right to build
Time period	30+20+30	30+20 (can be extended with T&C applies)
Collateral	Can be used as collateral but perceived as less valuable	Can be used as collateral
Ownership	Can be transfered/sold	Can be transfered/sold

Source: Katadata (as of Nov'16), DBSVI

Country of origin of foreign workers

Regulation	Oct-96	Mar-16	Sep-16	Oct-17 (Draft)
Price limit	Not in simple and very simple house category	Depend on area (see table below)	Depend on area (see table below)	n/a
Time period	25+25	25+25	30+20+30	expect the same
Primary/secondary property	n/a	Primary only	Primary/secondary	expect the same
Landed residential	1) right to use on top of state owned land 2) right to use on top of freehold 3) right to use on top of leasehold	1) right to use on top of state owned land 2) right to use on top of right to manage 3) right to use on top of freehold	1) right to use on top of right to use 2) right to use on top of freehold 3) right to use changes from of freehold or right to build	n/a
High rise residential	1) right to use on top of state owned land	1) right to use on top of state owned land 2) right to use on top of right to manage	1) right to use on top of right to use 2) right to use of srata title changes from right to own of strata title	1) right to own of strata title
Other regulation			1) only 1 landplot per person/family 2) less than 2,000 sqm (unless regulated otherwise by Minister)	n/a

Source: Agrarian and Spatial Planning Minister Regulation: 7/1996, 13/2016, 29/2016, DBSVI

Minimum price of properties which can be owned by foreigners (Rp bn)

Province	Mar-16		Sep-16		Changes	
	Landed house	Apartment	Landed house	Apartment	Landed house	Apartment
DKI Jakarta	10	5	10	3	-	-2
Banten	5	1	5	2	-	1
West Java	5	1	5	1	-	-
Central Java	3	1	3	1	-	-
DI Yogyakarta	3	1	5	1	2	-
East Java	5	1.5	5	1.5	-	-
Bali	3	2	5	2	2	-
NTB	2	1	3	1	1	-
North Sumatera	2	1	3	1	1	-
East Kalimantan	2	1	2	1	-	-
South Sulawesi	2	1	2	1	-	-
Others	1	0.75	1	0.75	-	-

Source: Agrarian Minister Regulation 7/1996, Agrarian and Spatial Planning Minister Regulation 13/2016, Agrarian and Spatial Planning Minister Regulation 29/2016, DBSVI

Indonesia Company Guide

Alam Sutera Realty

Version 5 | Bloomberg: ASRI IJ | Reuters: ASRI.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Nov 2017

HOLD

Last Traded Price (31 Oct 2017): Rp406 (JCI : 6,005.80)
Price Target 12-mth: Rp400 (-1% downside) (Prev Rp390)

Analyst
Victor STEFANO +6221 3003 4934 victor.stefano@id.dbsvickers.com

What's New

- Strong 3Q17 performance on high recognition of 2014 and 2015 marketing sales
- Excluding land plot sales to CFLD, we expect marketing sales to reach Rp3.7tr in FY17F
- Performance to improve in 2018 before moderating
- Maintain HOLD with TP of Rp400

Price Relative

Forecasts and Valuation

FY Dec (Rp m)	2015A	2016A	2017F	2018F
Revenue	2,784	2,716	3,982	4,947
EBITDA	1,706	1,178	2,031	2,384
Pre-tax Profit	902	724	1,677	1,995
Net Profit	597	509	1,344	1,539
Net Pft (Pre Ex.)	597	509	1,344	1,539
Net Pft Gth (Pre-ex) (%)	(45.6)	(14.7)	164.2	14.5
EPS (Rp)	30.4	25.9	68.4	78.3
EPS Pre Ex. (Rp)	30.4	25.9	68.4	78.3
EPS Gth Pre Ex (%)	(46)	(15)	164	14
Diluted EPS (Rp)	30.4	25.9	68.4	78.3
Net DPS (Rp)	7.00	6.03	3.06	7.29
BV Per Share (Rp)	298	328	393	464
PE (X)	13.4	15.7	5.9	5.2
PE Pre Ex. (X)	13.4	15.7	5.9	5.2
P/Cash Flow (X)	146.6	nm	2.6	2.7
EV/EBITDA (X)	8.9	12.8	6.9	5.2
Net Div Yield (%)	1.7	1.5	0.8	1.8
P/Book Value (X)	1.4	1.2	1.0	0.9
Net Debt/Equity (X)	1.0	0.9	0.6	0.3
ROAE (%)	10.5	8.3	19.0	18.3
Earnings Rev (%):			48	28
Consensus EPS (Rp):		N/A	43.0	51.0
Other Broker Recs:		B: 10	S: 3	H: 4

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P

Peaking out in 2018

Strong performance is expected in 2018 but going south afterwards
ASRI booked a 3Q17 net profit of Rp406bn (-24% q-o-q, +247% y-o-y) on strong recognition from its Kota Ayodhya apartment and Suvarna Sutera township. We expect the performance to remain strong, if not better, in 2018 due to its backlog recognition of 2014 and 2015 marketing sales as well as the expected marketing sales of its office tower, The Tower, in 4Q17. However, we expect its performance to depend on its land plot sales to CFLD going forward, as marketing sales are on a declining trend.

Where we differ: Maintain our neutral view on the company
Our view on the stock is unchanged as we believe demand for property is still muted for the time being. We believe ASRI's marketing sales (excluding land plot sales to CFLD) will grow at a steady rate.

Potential catalyst: Missing its marketing sales target
The company guided Rp5tr marketing sales this year, a significant jump from Rp3.4tr last year on the back of land plot sales to CFLD and The Tower office sales which are expected to be booked in 4Q17. If this failed to materialised, it could justify our valuation.

Valuation:
Our target price of Rp400 (previously Rp390) is at a 44% discount (its 5-year average) to our base-case RNAV. ASRI is currently trading at a 44% discount to RNAV. We maintain our HOLD call as we believe ASRI is trading at a fair level.

Key Risks to Our View:
Pasar Kemis township development to take off soon, as ASRI entered into a definitive agreement with subsidiaries of industrial city developer China Fortune Land Development on 22 June 2016 to co-develop a block of land in Pasar Kemis. Over the long term, given the more comprehensive development plan, the land value in Pasar Kemis could appreciate faster than we currently expect.

At A Glance

Issued Capital (m shrs)	19,649
Mkt. Cap (Rpbn/US$m)	7,978 / 588
Major Shareholders (%)	
Manunggal Prime Development (%)	26.3
Tangerang Fajar Industrial Estate (%)	25.2
Free Float (%)	48.5
3m Avg. Daily Val (US$m)	1.3

ICB Industry : Real Estate / Real Estate Investment & Services

WHAT'S NEW

Peaking out in 2018

Strong 3Q17 performance from high recognition of both high rise and landed projects

ASRI booked a 3Q17 net profit of Rp406bn (-24% q-o-q, +247% y-o-y) on strong recognition from its apartment and landed residential units. ASRI recognised 659 landed houses and 1,061 high-rise units during the quarter.Apartment and landed residential projects generated revenues of Rp708bn and Rp490bn, respectively – when combined, amounted to 81% of its 3Q17 revenue. The bulk of landed house revenue came from its Suvarna Sutera township, while the Kota Ayodhya project that was launched in 2014 is its main high-rise revenue contributor.

This brings 9M17 revenue to Rp3.2tr and net profit to Rp1.1tr. 9M17 revenue represents 80% and 93% of our and consensus estimates, respectively, with net profit already trumping our and consensus FY17 estimates.

Normalised margin from the absence of land plot sales

Margins declined to 48% from 79% last quarter due to its high recognition of high-rise units and the absence of land plot sales, which always deliver high margins when they are recognised.

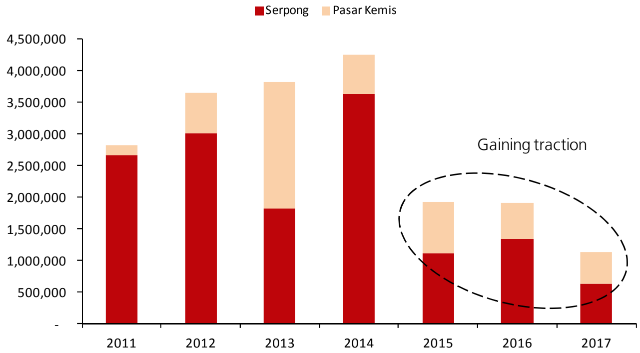
Strong performance is expected until 2018

We expect the performance to remain strong, if not better, in 2018 due to its backlog recognition of 2014 and 2015 marketing sales as well as the expected marketing sales of its office tower, The Tower, in 4Q17. However, we expect its performance to depend on its land plot sales to CFLD going forward, as marketing sales are on a declining trend.

Pasar Kemis gains traction

Historically, ASRI booked most of its revenue from its residential township in Serpong area. ASRI launched its second biggest residential township in Pasar Kemis in late 2011. Its consistent contribution (excluding the spike in 2013 from its Suvarna Sutera grand launch) has supported ASRI's performance over the past few years. This was more so when land prices in Serpong area skyrocketed during 2011-2013, Pasar Kemis has become the affordable second option in ASRI's portfolio.

Marketing sales achievement by area (Rp bn)



Source: company, DBSVI

Despite the controversy over its decision to sell part of its land in Pasar Kemis to China Fortune Land Development (CFLD), ASRI's Pasar Kemis township is doing well with 9M17 marketing sales reaching Rp509bn or 40% of its total 9M17 marketing sales. Compared to the same period last year, Pasar Kemis' project marketing sales rose by 38%. Compared to the Serpong township that recorded a 34% decrease from Rp948bn in 9M16 to Rp628bn this year, the Pasar Kemis township has outperformed Serpong area in terms of growth.

We believe the growth in Pasar Kemis is partly due to the Lavon project which started its marketing campaign in 2Q17. The campaign by Lavon has made Pasar Kemis area more exposed to buyers from Jakarta, in particular, and Indonesia, in general.

Outlook

FY17F/FY18F earnings revised by +48%/+28%

We revised ASRI earnings forecast by +48%/+28% to account for higher recognition from land plot sales and The Tower office, lower operating and tax expenses.

Marketing sales to reach Rp3.7tr

We expect ASRI to book Rp3.7tr marketing sales (excluding the potential land plot sales to CFLD) in FY17, lower than management's guidance of Rp5tr.

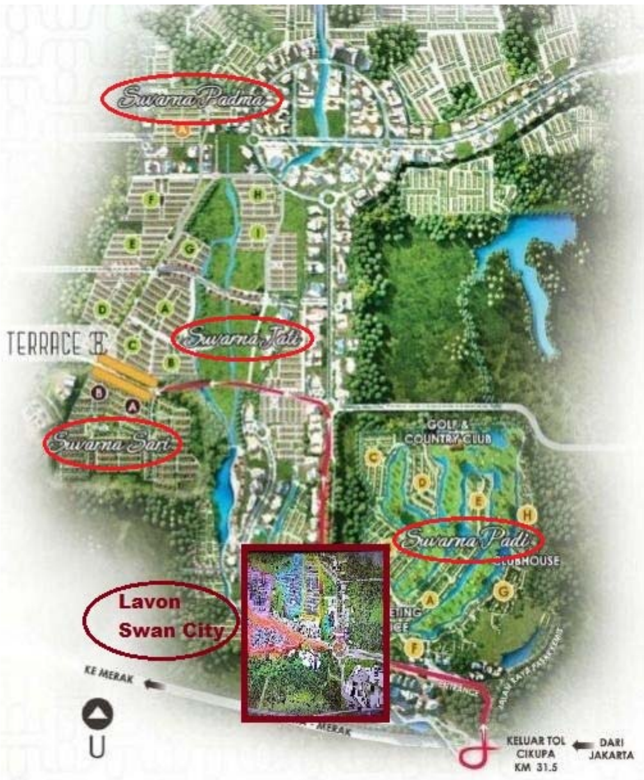
Net gearing stabilized at 0.8 level

ASRI net gearing stood at 82% as of September 2017. A gradual decline is seen from its peak at 113% in 3Q15 thanks to its cash generated by its land plot sales to CFLD.

Valuation

Our target price of Rp400 (previously Rp390) is at a 44% discount (its 5-year average) to our base-case RNAV. ASRI is currently trading at a 44% discount to RNAV. We maintain our HOLD call as we believe ASRI is trading at a fair level.

Marketing sales achievement by area



Source: company, DBSVI

ASRI RNAV summary

Portfolio	% of total	Value (Rpbn)
Investment Property	4%	709
Mall @ Alam Sutera	3%	522
Office for lease (CBD)	1%	186
Garuda Wisnu Kencana (Bali)	0%	0
Development properties & Landbank	96%	18,629
Serpong + North Serpong	41%	7,872
Pasar Kemis	46%	8,927
Strata office (CBD)	7%	1,282
Kota Ayodhya	2%	379
Cianjur	0%	96
Tanjung Pinang (Riau)	0%	28
Puncak (South Jakarta suburb)	0%	45
Net Debt		5,244
RNAV	100%	14,093
Fully Diluted Share base (bn)		19.649
Fully Diluted RNAV per share		717

Source: DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	620	983	1,485	139.6	51.0
Cost of Goods Sold	(298)	(204)	(776)	160.2	279.8
Gross Profit	322	779	709	120.5	(9.0)
Other Oper. (Exp)/Inc	(89.0)	(102)	(101)	12.9	(0.9)
Operating Profit	233	678	608	161.6	(10.2)
Other Non Opg (Exp)/Inc	(76.3)	(17.2)	(17.9)	76.5	4.1
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(36.1)	(71.2)	(68.6)	(90.1)	3.7
Exceptional Gain/(Loss)	61.4	0.70	(47.3)	nm	nm
Pre-tax Profit	182	590	474	161.3	(19.6)
Tax	(64.9)	(53.3)	(66.4)	2.3	24.5
Minority Interest	0.30	(2.4)	(1.9)	nm	(22.3)
Net Profit	117	534	406	247.1	(24.0)
Net profit bef Except.	55.6	533	454	715.9	(15.0)
EBITDA	233	678	608	161.6	(10.2)
Margins (%)					
Gross Margins	51.9	79.2	47.7		
Opg Profit Margins	37.5	68.9	41.0		
Net Profit Margins	18.9	54.3	27.4		

Source of all data: Company, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

Marketing sales achievement

Property developers recognise non-recurring revenue from marketing sales in the prevailing years. Marketing sales are expected to improve, helped by the cooperation agreement with China Fortune Land Development in Pasar Kemis despite the weak demand in the Indonesian property market. Its 2nd township Pasar Kemis (about thrice the size of its maturing Serpong township and located 17km from Serpong) is expected to be the key marketing sales growth driver going forward.

Limited growth of recurring revenues from investment properties

ASRI generated c.10% of consolidated revenue from investment properties such as retail malls, office leases and cultural parks. Despite expectations of strong growth for cultural park revenue from Garuda Wisnu Kencana (GWK) in Bali, we see limited impact on recurring income from the current levels.

Unusually high profitability margin is not sustainable going forward

ASRI's marketing sales have been mainly driven by the sale of commercial block land in the Serpong township for the past two years, as ASRI has to generate more cashflow to serve its current debt. Given the expected change in product mix going forward, the all-time high consolidated gross profit margin of 74% in 2015 is not sustainable and is expected to decline sharply back to the normal level of c.60%.

Need to monitor costs

SG&A expenses (as a % of revenue) have trended up with sharp increases in key components (i.e. salaries, wages & allowances). Good control of SG&A expenses is crucial if the developer wants to grow earnings during this challenging period.

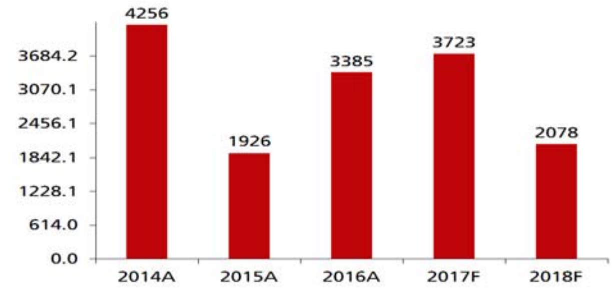
Potential value from Bali cultural park development

ASRI acquired Garuda Wisnu Kencana (GWK) in 2012 and is still working on the master plan for GWK because it has to first complete the huge statue inside the cultural park. There is potential upside from the area of c.30ha surrounding the cultural park. Currently, we are assigning a minimum value to this development in our RNAV calculation.

Unrealised forex gain/loss might cause wide earnings swings

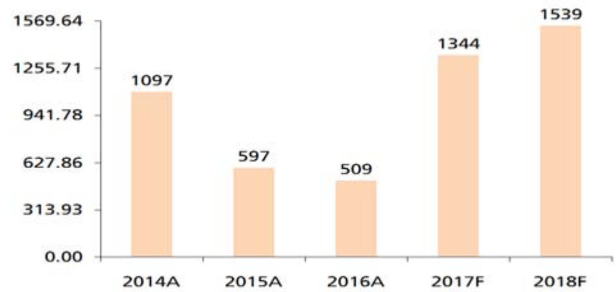
Although the US$ global bonds are hedged to maturity, ASRI faces staggering unrealised forex losses if the IDR continues to weaken against the US$ (as shown in FY15, where most of its operating income was wiped out).

Marketing sales

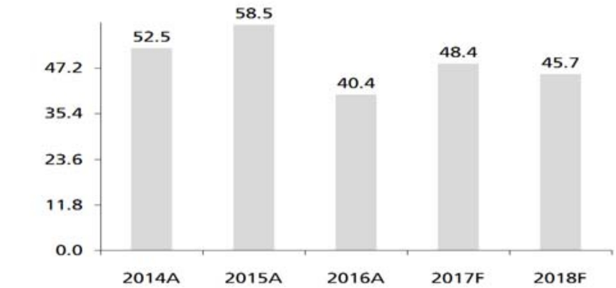


Sales Trend (Rp bn)

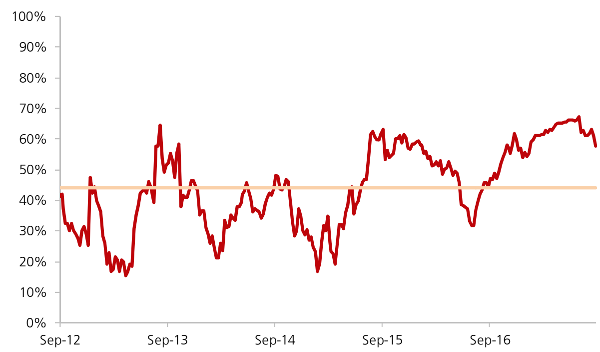
Net Profit Trend (Rp bn)



EBIT Margin (%)



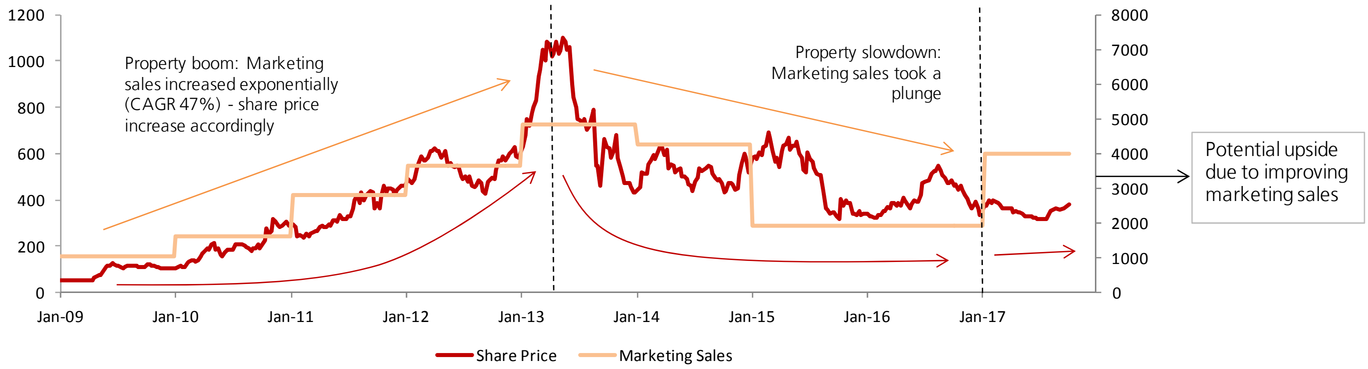
Disc to RNAV trend



Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Marketing sales (ex JV land plot) as critical factor to BSDE share price



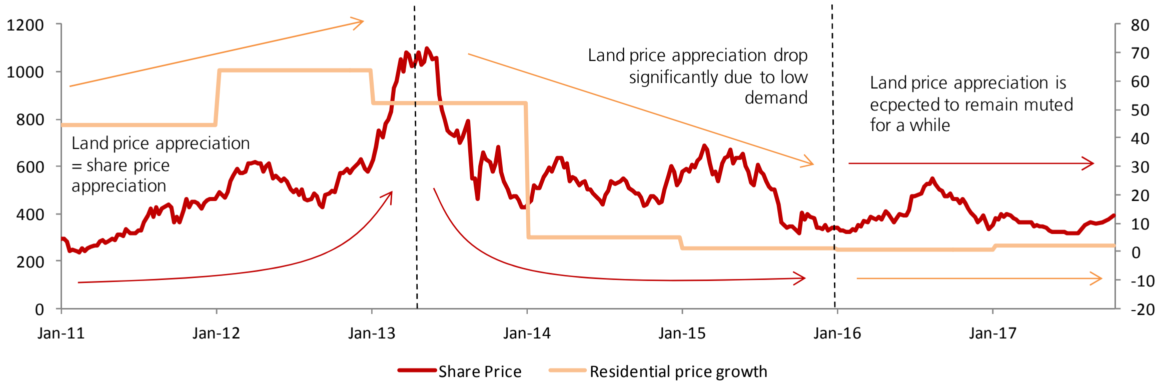
Source: Company, Bloomberg Finance L.P, Company, DBSVI

During 2009 – 2015, ASRI's marketing sales increased at 47% CAGR. Most of its sales came from Serpong area. But in late 2011, it launched a new township in Pasar Kemis that boosted the project's revenue contribution (the highest was 50% in 2013 due to its grand launch). The share price rose accordingly in anticipation of strong growth for ASRI's marketing sales. However, the share price dropped in mid-2013 due to weak economic conditions.

In 2016, the share price rose on the back of high expectations for the tax amnesty programme in accelerating the property industry's growth back to the pace in boom times. However, the expected growth did not materialise as the property take-up rate was still slow post tax amnesty programme.

Excluding land plot sales to CFLD, we expect marketing sales to grow to Rp3.7tr due to its sales of 'The Tower' office tower. If ASRI can meet our expectation for marketing sales, this can help push the share price north of the current level. However we believe real demand for residential property developers will remain muted therefore put pressure on ASRI share price.

Share price movement depends on Alam Sutera's residential land price



Source: Bloomberg Finance L.P, BI, Company, DBSVI

As one of the biggest township developers in Serpong area, ASRI gets most of its value from residential land price appreciation in Serpong. During the property boom, the Serpong area, including ASRI's township, experienced significant appreciation due to high demand for affordable living space near Jakarta and also from investors wanting to reap the benefits of land price increase.

The land price appreciation has decelerated due to weak demand arising from a weak economy and the onset of selling activities by investors. As a result, ASRI's share price fell by more than half.

We expect no significant improvement in ASRI's residential land price appreciation in the near future. This muted land price appreciation is also likely to put a lid on ASRI's share price upside in the near term.

Balance Sheet:

Net gearing to remain at high level

ASRI has been gearing up since 2012, when it decided to raise US$ bonds at a high coupon rate for aggressive acquisitions (i.e. Pasar Kemis township and cultural park Garuda Wisnu Kencana in Bali). Despite completing the buyback of US$150m high-yield bonds, the large capex required for its existing high-rise projects means that ASRI has to drawdown more loan facilities. Therefore, net gearing will still hover close to 90% for the next few years. As of 9M17, ASRI's net gearing was 80%.

Share Price Drivers:

Marketing sales achievement and pipeline

Marketing sales achievement is a good indicator for all the Indonesian property developers (including ASRI), as it acts as a forward signal for revenue generation over the next 2-3 years (depending on the revenue recognition).

Possible increase in hedging cost from US$ debt

ASRI is exposed to IDR weakness due to its global US$ bonds. Despite recent efforts to trim its expensive debt and existing hedging instruments, ASRI still has US$480m worth of bonds on its balance sheet; it has hedged the principal through call spreads (up to IDR14,500). Hedging cost could rise to beyond reasonable levels if the USD/IDR exchange rate breaches the call spread.

Key Risks:

Stricter regulations for high-rise developments. Plot ratio approval and balanced ratio rules, when strictly implemented, could potentially slow property demand. Liquidity tightening could dampen demand further.

Potential interest rate hike. Property demand is sensitive to and is negatively correlated to interest-rate movements.

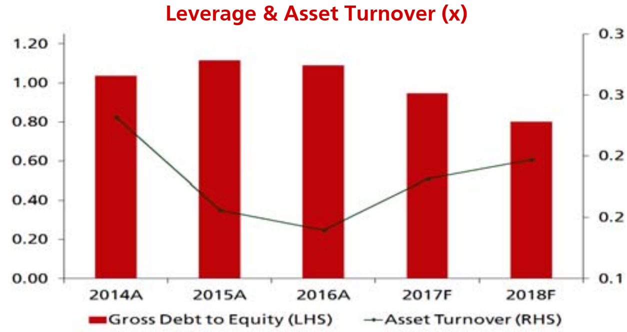
Exposure to US$, both financially (i.e. debt in balance sheet) and operationally (i.e. higher material costs, especially for high-rise projects with higher US$-linked items) is a risk if the IDR weakens against the US$.

Strict implementation of potential revisions to housing development balance ratio (for low-end, mid-range and luxury houses). If such revisions are implemented strictly and retroactively, this could potentially mean additional costs for property developers and more complicated property development planning.

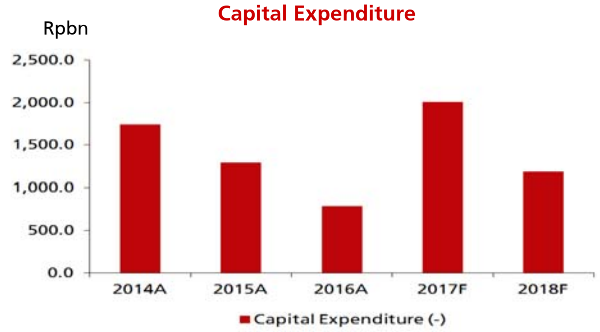
Company Background

ASRI is an upscale township developer in Serpong and Pasar Kemis (west Jakarta suburb). It is diversifying its revenue base to achieve higher sales for commercial properties such as retail malls and office towers.

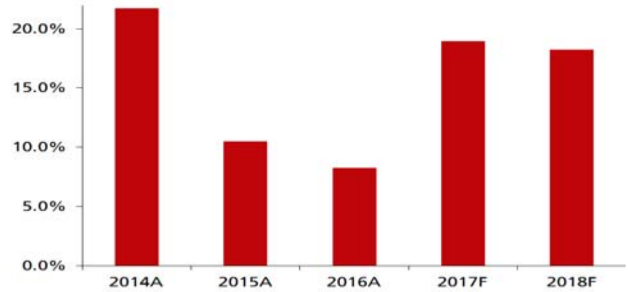
Leverage & Asset Turnover (x)



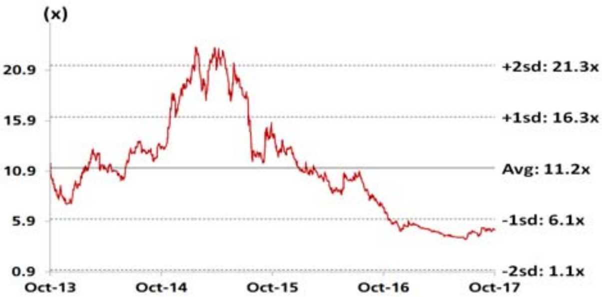
Capital Expenditure



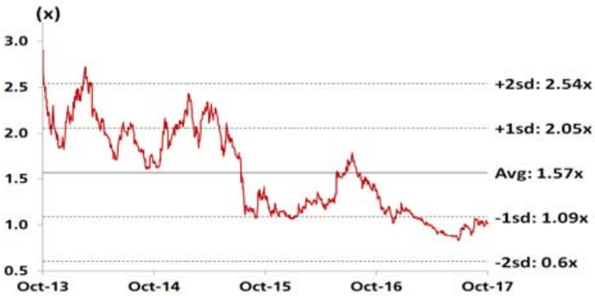
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBSVI

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Marketing sales	4,256	1,926	3,385	3,723	2,078
Sales Trend (Rp bn)	3,631	2,784	2,716	3,982	4,947
Net Profit Trend (Rp bn)	1,097	597	509	1,344	1,539
EBIT Margin (%)	52.5	58.5	40.4	48.4	45.7

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (Rpbn)					
Land plots	1,616	2,095	902	1,574	2,020
Houses	1,694	325	1,001	900	490
Apartment & Office	2.70	0.0	438	1,097	1,998
Commercial	52.4	61.3	73.3	76.9	80.8
Others	266	302	302	334	358
Total	3,631	2,784	2,716	3,982	4,947
Gross Profit (Rpbn)					
Land plots	1,259	1,771	706	1,306	1,677
Houses	968	180	420	468	255
Apartment & Office	1.50	0.0	231	439	799
Commercial	29.5	40.1	49.1	50.0	52.5
Others	49.0	65.1	58.9	41.0	44.5
Total	2,307	2,056	1,465	2,304	2,828
Gross Profit Margins (%)					
Land plots	77.9	84.5	78.3	83.0	83.0
Houses	57.1	55.2	41.9	52.0	52.0
Apartment & Office	55.6	N/A	52.8	40.0	40.0
Commercial	56.3	65.4	67.1	65.0	65.0
Others	18.4	21.6	19.5	12.3	12.4
Total	63.5	73.9	53.9	57.9	57.2

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	3,631	2,784	2,716	3,982	4,947
Cost of Goods Sold	(1,324)	(728)	(1,251)	(1,678)	(2,119)
Gross Profit	2,307	2,056	1,465	2,304	2,828
Other Opng (Exp)/Inc	(399)	(428)	(368)	(378)	(569)
Operating Profit	1,908	1,628	1,096	1,926	2,259
Other Non Opg (Exp)/Inc	(330)	(605)	(201)	(87.6)	(87.6)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(147)	(121)	(173)	(161)	(176)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,431	902	724	1,677	1,995
Tax	(254)	(217)	(213)	(199)	(297)
Minority Interest	(79.5)	(87.8)	(1.5)	(134)	(160)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,097	597	509	1,344	1,539
EBITDA	1,978	1,706	1,178	2,031	2,384
Growth					
Revenue Gth (%)	(1.4)	(23.3)	(2.4)	46.6	24.2
EBITDA Gth (%)	24.2	(13.8)	(31.0)	72.4	17.4
Opg Profit Gth (%)	24.4	(14.7)	(32.6)	75.7	17.3
Net Profit Gth (Pre-ex) (%)	(5.1)	(45.6)	(14.7)	164.2	14.5
Margins & Ratio					
Gross Margins (%)	63.5	73.9	53.9	57.9	57.2
Opg Profit Margin (%)	52.5	58.5	40.4	48.4	45.7
Net Profit Margin (%)	30.2	21.4	18.7	33.8	31.1
ROAE (%)	21.7	10.5	8.3	19.0	18.3
ROA (%)	7.0	3.3	2.6	6.1	6.1
ROCE (%)	13.6	9.1	5.1	9.8	10.2
Div Payout Ratio (%)	11.9	12.5	19.9	11.8	10.7
Net Interest Cover (x)	13.0	13.5	6.4	12.0	12.8

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	620	811	702	983	1,485
Cost of Goods Sold	(298)	(409)	(354)	(204)	(776)
Gross Profit	322	402	348	779	709
Other Oper. (Exp)/Inc	(89.0)	(99.3)	(82.3)	(102)	(101)
Operating Profit	233	303	265	678	608
Other Non Opg (Exp)/Inc	(76.3)	(220)	(24.7)	(17.2)	(17.9)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(36.1)	(69.0)	(66.9)	(71.2)	(68.6)
Exceptional Gain/(Loss)	61.4	(115)	32.7	0.70	(47.3)
Pre-tax Profit	182	(101)	206	590	474
Tax	(64.9)	(49.1)	(30.3)	(53.3)	(66.4)
Minority Interest	0.30	(0.5)	0.0	(2.4)	(1.9)
Net Profit	117	(151)	176	534	406
EBITDA	233	303	265	678	608
Growth					
Revenue Gth (%)	40.1	30.8	(13.4)	40.1	51.0
EBITDA Gth (%)	129.0	30.1	(12.3)	155.4	(10.2)
Opg Profit Gth (%)	129.0	30.1	(12.3)	155.4	(10.2)
Net Profit Gth (Pre-ex) (%)	(513.4)	(164.5)	(500.3)	272.0	(15.0)
Margins					
Gross Margins (%)	51.9	49.6	49.5	79.2	47.7
Opg Profit Margins (%)	37.5	37.3	37.8	68.9	41.0
Net Profit Margins (%)	18.9	(18.6)	25.1	54.3	27.4

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	2,036	2,140	2,157	3,559	4,084
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	8,879	9,477	10,165	10,668	11,204
Cash & ST Invts	1,261	939	1,436	2,899	4,677
Inventory	3,752	5,550	5,990	6,168	6,077
Debtors	130	120	178	179	222
Other Current Assets	867	485	260	260	260
Total Assets	16,924	18,710	20,186	23,732	26,524
ST Debt	0.0	77.2	323	323	323
Creditor	161	1,033	348	932	1,177
Other Current Liab	3,680	3,591	3,434	4,667	5,659
LT Debt	6,606	7,291	7,511	7,821	7,821
Other LT Liabilities	107	116	1,383	1,383	1,383
Shareholder's Equity	6,118	6,455	7,083	8,367	9,762
Minority Interests	253	148	105	239	399
Total Cap. & Liab.	16,924	18,710	20,186	23,732	26,524
Non-Cash Wkg. Capital	908	1,531	2,647	1,007	(277)
Net Cash/(Debt)	(5,346)	(6,429)	(6,398)	(5,244)	(3,467)
Debtors Turn (avg days)	10.7	16.4	20.0	16.3	14.8
Creditors Turn (avg days)	46.7	580.3	108.5	216.3	215.5
Inventory Turn (avg days)	1,091.7	3,117.9	1,869.1	1,431.2	1,112.3
Asset Turnover (x)	0.2	0.2	0.1	0.2	0.2
Current Ratio (x)	1.6	1.5	1.9	1.6	1.6
Quick Ratio (x)	0.4	0.2	0.4	0.5	0.7
Net Debt/Equity (X)	0.8	1.0	0.9	0.6	0.3
Net Debt/Equity ex MI (X)	0.9	1.0	0.9	0.6	0.4
Capex to Debt (%)	26.3	17.6	10.0	24.7	14.6
Z-Score (X)	1.5	1.3	1.1	1.2	1.2

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	1,431	902	724	1,677	1,995
Dep. & Amort.	69.9	77.9	81.0	105	125
Tax Paid	(254)	(217)	(213)	(199)	(297)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1,595)	(622)	(1,117)	1,640	1,284
Other Operating CF	19.5	(85.5)	127	(134)	(160)
Net Operating CF	**(329)**	**54.4**	**(398)**	**3,089**	**2,948**
Capital Exp.(net)	(1,739)	(1,295)	(787)	(2,009)	(1,187)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(19.5)	(105)	(42.8)	134	160
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	129	525	1,268	0.0	0.0
Net Investing CF	**(1,630)**	**(876)**	**439**	**(1,875)**	**(1,027)**
Div Paid	(138)	(138)	(119)	(60.1)	(143)
Chg in Gross Debt	2,020	762	466	310	0.0
Capital Issues	0.0	0.0	44.7	0.0	0.0
Other Financing CF	0.0	(125)	64.4	0.0	0.0
Net Financing CF	**1,882**	**499**	**457**	**249**	**(143)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(76.6)	(322)	497	1,463	1,778
Opg CFPS (Rp)	64.4	34.4	36.6	73.7	84.7
Free CFPS (Rp)	(105)	(63.2)	(60.3)	54.9	89.6

Source: Company, DBSVI

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Feb 17	386	390	HOLD
2:	03 Apr 17	354	390	HOLD
3:	04 May 17	338	390	HOLD

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBSVI
Analyst: Victor STEFANO

Bumi Serpong Damai

Version 5 | Bloomberg: BSDE IJ | Reuters: BSDE.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Oct 2017

BUY

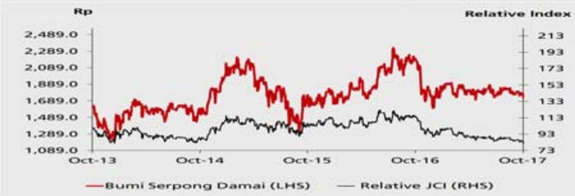
Last Traded Price (27 Oct 2017): Rp1,725 (JCI : 5,975.30)
Price Target 12-mth: Rp2,105 (22% upside) (Prev Rp2,200)

Analyst
Victor STEFANO +6221 3003 4934 victor.stefano@id.dbsvickers.com

What's New

- Surge in marketing and promotion expenses has eroded net profit
- Huge contribution from commercial land plot sales is expected to boost earning
- FY17F/FY18F earnings adjusted by +55%/+3%
- Maintain BUY with a new TP of Rp2,105

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2015A	2016A	2017F	2018F
Revenue	6,210	6,522	8,006	7,140
EBITDA	3,094	3,297	4,688	3,954
Pre-tax Profit	2,715	2,425	4,125	3,401
Net Profit	2,140	1,796	3,350	2,732
Net Pft (Pre Ex.)	1,999	2,053	3,350	2,732
Net Pft Gth (Pre-ex) (%)	(45.7)	2.7	63.2	(18.4)
EPS (Rp)	111	93.3	174	142
EPS Pre Ex. (Rp)	104	107	174	142
EPS Gth Pre Ex (%)	(48)	3	63	(18)
Diluted EPS (Rp)	111	93.3	174	142
Net DPS (Rp)	15.0	5.00	9.33	17.4
BV Per Share (Rp)	979	1,069	1,234	1,359
PE (X)	15.5	18.5	9.9	12.2
PE Pre Ex. (X)	16.6	16.2	9.9	12.2
P/Cash Flow (X)	49.0	44.3	7.5	25.0
EV/EBITDA (X)	12.1	12.1	8.2	10.2
Net Div Yield (%)	0.9	0.3	0.5	1.0
P/Book Value (X)	1.8	1.6	1.4	1.3
Net Debt/Equity (X)	0.0	0.1	0.0	0.1
ROAE (%)	12.5	9.1	15.1	11.0
Earnings Rev (%):			55	3
Consensus EPS (Rp):		N/A	139	143
Other Broker Recs:		B: 28	S: 1	H: 3

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

Still rolling despite weak demand

Marketing sales supported by landplot sales. We expect BSDE to book marketing sales of Rp7.1tr this year, up from Rp6.46tr in our previous forecast, on the back of commercial land plot sales. While the property sector is still sluggish, we believe BSDE will remain attractive due to: 1) its cheap valuation (at +1.5SD discount to RNAV of its historical value), 2) more commercial land plot sales to boost its marketing sales as well as faster development progress for its BSD city, and 3) strong balance sheet.

Where we differ
We are forecasting higher FY17 bottom-line at Rp3.3tr compared to consensus' Rp2.7tr on the back of sales from commercial land plots. We believe BSDE will experience superior margin relative to its peers from revenue mix and faster recognition from its land plot sales.

Potential catalyst
We believe more JV developments and faster progress for its toll road construction will unlock BSD's area land value faster than its peers. More stable political conditions post Jakarta governor election will also boost the confidence of property buyers.

Valuation:
Our target price of Rp2,105 is at a 48% discount to our base-case RNAV (based on its 5-year average). BSDE is currently trading at a 57% discount to RNAV, a 1.5 SD discount over its 5-year average.

Key Risks to Our View:
Weaker property affordability, potential increase in interest rate and stricter implementations of high-rise developments could lead to delays in its launch pipeline and cause marketing sales to fall short of our expectations.

At A Glance

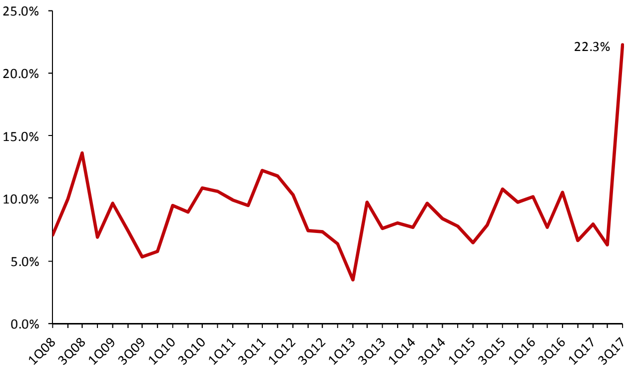
Issued Capital (m shrs)	19,247
Mkt. Cap (Rpbn/US$m)	33,201 / 2,439
Major Shareholders (%)	
Paraga Artamida PT (%)	26.6
Ekacentra Usahamaju PT (%)	26.5
Sereasi Niaga Sakti (%)	3.1
Free Float (%)	35.4
3m Avg. Daily Val (US$m)	2.0
ICB Industry : Real Estate / Real Estate Investment & Services	

WHAT'S NEW

Huge landbank has supported BSDE in weak demand environment

Higher marketing expenses dragged 3Q17 earnings. In 3Q17, BSDE booked Rp1.6tr revenue (+17% y-o-y, -34% q-o-q) and this brings 9M17 revenue to Rp5,827 – meeting 65% and 58% of our and consensus full-year estimates. Gross margins remain strong at 72% but pretax margins hit 25%, the lowest since 2011 on the back of higher selling expenses recorded in the quarter. Selling expenses rose 149% y-o-y and 132% q-o-q, no thanks to the surge in advertising, promotion, and commission expenses.

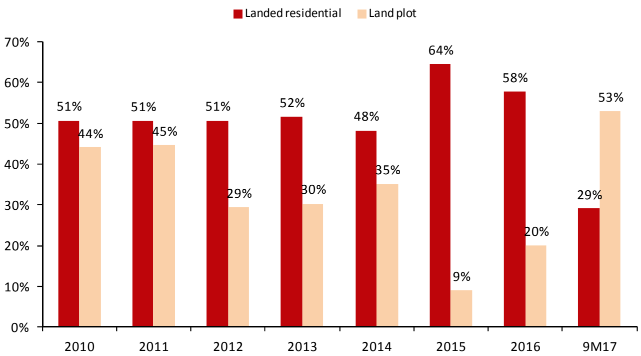
Selling expenses as a percentage of revenue



Source: Company, DBSVI

More land plot sales boost marketing sales achievement. BSDE booked Rp2.3tr marketing sales in 3Q17 with 69%, or Rp1.57tr, coming from two units of commercial land plot sales. This brings its 9M7 marketing sales to Rp4.8tr (66% of FY17 target of Rp7.2tr). Management has guided for at least Rp1tr marketing sales being booked in 4Q17 from its land plot sales. If the target of its Price Lock marketing programme (that aims to rake in Rp1tr marketing sales each month or Rp3tr in total) is achieved, BSDE might book higher marketing sales than its FY17 target.

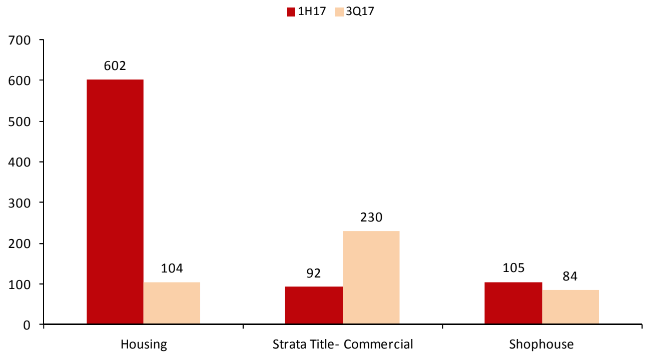
Marketing sales contribution



Source: Company, DBSVI

However we saw weakness in property demand in the third quarter – especially landed houses which saw only 104 units sold in three months or only 17% of its 1H17 achievement. With 84 units of shophouses being sold in the same period, the house to shophouse ratio was close to 1, which is not good in the long term, in our opinion. Good take-up was seen in strata title sales – 230 units sold, giving Rp150bn marketing sales. We believe most of the units sold came from Akasa or other the lower-end apartment segment in the BSD area.

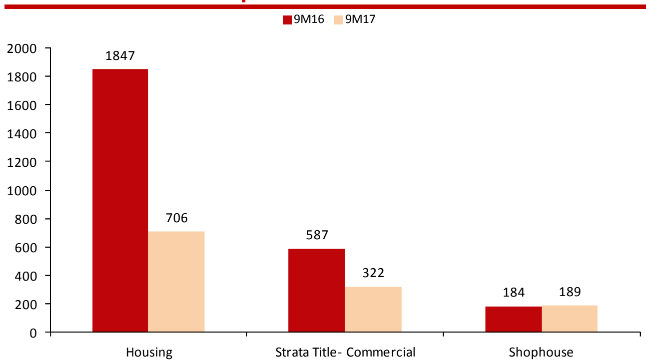
3Q17 units sold compared to 1H17



Source: Company, DBSVI

Weak y-o-y volume growth. There were fewer units sold recorded across residential products in 9M17 compared to the same period last year. Landed residential unit sales dropped by 62% y-o-y while high-rise residential unit sales dropped by 45%. We saw resilient sales rates for shophouses which were flat y-o-y. Thus, the shophouse to house sales ratio dropped to 1:4 in 9M17 from 1:10 in 9M16.

9M17 units sold compared to 9M16



Source: Company, DBSVI

Lower appetite for project launches. We see lower appetite for project launches in 2017 compared to 2016. We looked at the comparison between cluster Piazza (launched in Nov 2016) with cluster Avezza (launched in Jun 2017) and cluster Askara (launched in Jul 2017). The three clusters are located in Mozia and Vanya Park, both in BSD city. We would also like to note that Piazza is a mid-rise (same title with high rise) development while Avezza and Askara are landed property developments.

Comparison between launches

Cluster	Project	Launch date	Land area (sqm)	Building area (sqm)	Lumpsum price (Rp bn)	1st day take-up
Piazza	Mozia	Nov-16	35 - 50	103 - 139	1.3 - 1.8	65%
Avezza	Mozia	Jun-17	60 - 105	73 - 116	1.3 - 2.2	57%
Askara	Vanya	Jul-17	66 - 123	60 - 150	1.2 - 3.0	51%

Source: Company, DBSVI

Price Lock promotion

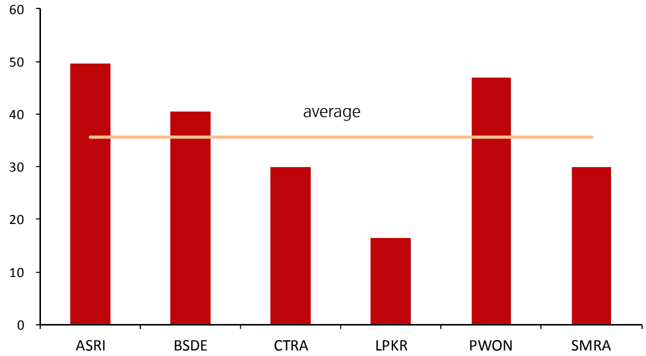
BSDE has recently launched a marketing campaign called "Price Lock" to grow marketing sales in 4Q17. BSDE is targeting to clinch Rp3tr marketing sales (Rp1tr/month) from the "Price Lock" marketing programme. The category 1 programme is similar to a balloon payment scheme but is limited to kavling, Aerium apartment, East Indonesia, and Batam projects only. The category 2 programme is akin to last year's programme, "Price Amnesty", but is only applicable to ready stock units and hard cash or express mortgage payments (30% DP). Overall, we see the new marketing programme of "Price Lock" being less attractive than last year's "Price Amnesty" programme that helped rake in Rp2.1tr marketing sales in 4Q16.

Strong in profitability and low leverage

BSDE margin is still decent. During the property market slowdown since 2014, BSDE recorded a decent operating margin of 41%. We believe BSDE's margins will remain strong, as its old and huge landbank in BSD city will still be the main contributor to its revenue.

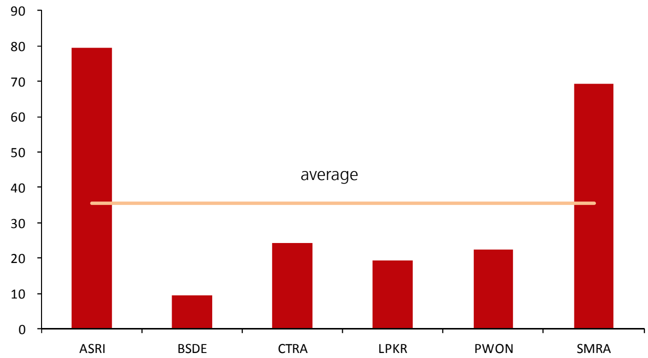
Strong balance sheet to ride property cycle. We believe BSDE's strong balance sheet is one of its key competitive advantages during property slowdown cycles. As of end-June 2017, BSDE net gearing stood at 10%, the lowest among its peers.

Average operating margin since 2014



Source: Bloomberg Finance L.P, DBSVI

Net gearing position as of end-June 2017



Source: Bloomberg Finance L.P, DBSVI

Valuation

FY17F/FY18F earnings revised by +55%/+3%. We revise up our FY17F earnings by 55% to account for land plot sales recognition. As of Sep 2017, BSDE earning represents 69% of our FY17 forecast. We expect the Rp1.5tr commercial land plot sales to be booked in the 4Q17.

Maintain BUY with a new TP of Rp2,105. We adjusted our RNAV from Rp4,583/share to Rp4,046/share after imputing slower take up rate and lower land price appreciation. We maintain our BUY call on BSDE with a new target price of Rp2,105. Our TP is at a 48% discount to our base-case RNAV (based on its 5-year average). BSDE is currently trading at a 57% discount to RNAV. At the current price, BSDE trading at +1.5SD discount to its 5-year average.

BSDE's RNAV summary

BSDE portfolio	Stake	RNAV
Investment property		
Wisma BII Jakarta	73%	260
Plaza BII Tower II Jakarta	67%	1,727
Plaza BII Tower III Jakarta	67%	340
Wisma BII Surabaya	73%	439
Wisma BII Medan	73%	282
MSIG Tower	100%	803
Epicentrum Walk Mall	100%	269
The Brezze	100%	665
DP Mall	57%	333
AEON Mall	33%	765
ITC	89%	1,262
Qbig	100%	601
Courts	100%	793
Plaza Indonesia	44%	6,727
Le Grandeur Mangga Dua	89%	227
Le Grandeur Balikpapan	89%	99
Total investment property surplus value (Rp bn) - 1		15,593
Development property		
BSD City	100%	22,546
Nava Park	51%	1,176
Grand Wisata - Bekasi	47%	954
Legenda Wisata - Cibubur	89%	325
Taman Banjar Wijaya	89%	269
Taman Permata Buana	89%	576
Grand City - Balikpapan	55%	466
Balikpapan Baru	55%	-
Kota Bunga - Cipanas	89%	2
Kota Wisata - Cibubur	89%	1,423
The Elements - Kuningan	100%	122
Southgate - North Tower	89%	43
Aerium	45%	17
Klaska	100%	319
Total development property surplus value (Rp bn) - 2		28,238
Land bank		
BSD City Tangerang	100%	26,684
Benowo Surabaya	73%	1,917
Jakarta Jakarta Pusat	73%	530
Roxy II Jakarta Pusat	89%	2,784
Makassar Sulawesi Selatan	68%	178
Cibubur Jawa Barat	89%	635
Dukuh Pakis Surabaya	100%	302
Palembang Sumatera Selatan	33%	208
Grand City Samarinda	36%	122
MT Haryono Jakarta	73%	141
Bekasi Jawa Barat	100%	782
Tanjung Sari Surabaya	100%	245
South Gate Tanjung Barat	89%	558
Total land bank surplus value (Rp bn) - 3		35,086
Net cash (debt) - 4		(1,039)
RNAV - 1 + 2 + 3 + 4		77,877
Fully diluted share base (bn)		19
RNAV per share (Rp)		$\boxed{4,046}$

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	1,383	2,460	1,614	16.7	(34.4)
Cost of Goods Sold	(349)	(542)	(447)	28.3	(17.5)
Gross Profit	1,034	1,917	1,166	12.8	(39.2)
Other Oper. (Exp)/Inc	(512)	(529)	(626)	22.2	18.4
Operating Profit	522	1,389	541	3.5	(61.1)
Other Non Opg (Exp)/Inc	(12.9)	22.8	(113)	(775.4)	nm
Associates & JV Inc	38.8	98.9	67.2	73.4	(32.0)
Net Interest (Exp)/Inc	(88.4)	(50.8)	(72.5)	18.0	(42.8)
Exceptional Gain/(Loss)	18.2	(8.9)	(13.6)	nm	52.5
Pre-tax Profit	479	1,452	410	(14.3)	(71.7)
Tax	(81.6)	(115)	(76.8)	(5.9)	(33.4)
Minority Interest	(59.8)	(58.2)	(40.3)	32.6	(30.7)
Net Profit	337	1,277	292	(13.2)	(77.1)
Net profit bef Except.	318	1,286	306	(4.0)	(76.2)
EBITDA	549	1,511	496	(9.6)	(67.2)
Margins (%)					
Gross Margins	74.8	78.0	72.3		
Opg Profit Margins	37.8	56.5	33.5		
Net Profit Margins	24.3	51.9	18.1		

Source of all data: Company, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

Marketing sales

We believe marketing sales will continue to be BSDE's share price driver. Any marketing sales surprise will affect its share price movement. We expect marketing sales to grow at 14% to Rp7.1tr in FY17.

BSD City still has 3,000ha of landbank (good for another 25-30 years of development), and that will remain the major driver of marketing sales going forward. We expect BSD City to continue to contribute more than 60% of total marketing sales, albeit slipping going forward with the emergence of other projects.

BSDE has also started to expand outside Greater Jakarta with ventures in East of Indonesia cities such as Benowo (East Java), Balikpapan and Samarinda (East Kalimantan).

Growing recurring revenue from investment properties

BSDE generated c.18% of its consolidated revenue from its investment properties such as retail malls, hotel and office leases. The recent addition of several investment properties points to BSDE's intention to beef up this proportion to c.20% over the long term to ensure earnings sustainability.

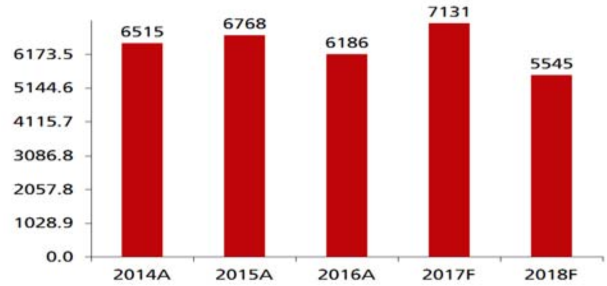
Better revenue mix will lead to better margins

BSDE's revenues are still heavily reliant on the sale of landed residential houses which had commanded high gross profit margins (>70%) in the past two years. We expect consolidated gross profit margins to stay above 70% for the considerable future as there will be no significant changes to BSDE's revenue mix.

Good control of operating costs

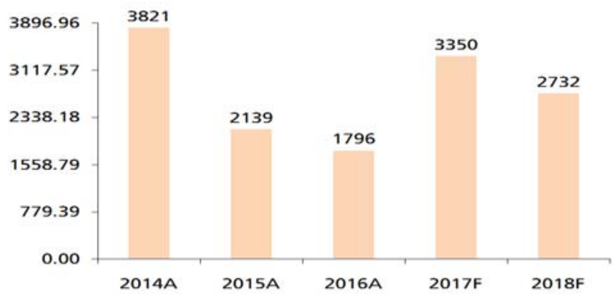
BSDE has been able to keep SG&A expenses (as a % of revenue) under control, as it needs to juggle the cost and benefits of boosting property demand during the current stale market. Good control of SG&A expenses is crucial to maintaining profitability in this challenging period.

Marketing sales

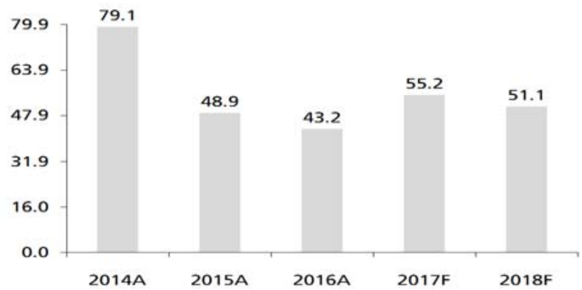


Sales Trend

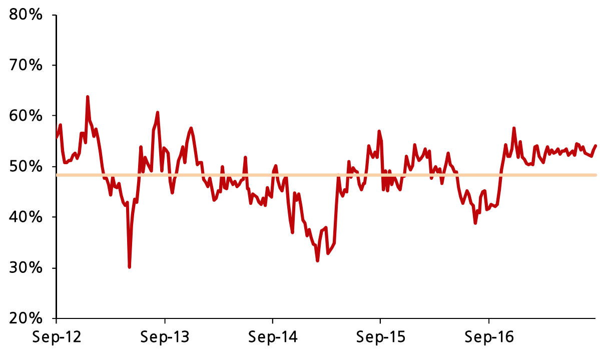
Net Profit Trend



EBIT Margin (%)



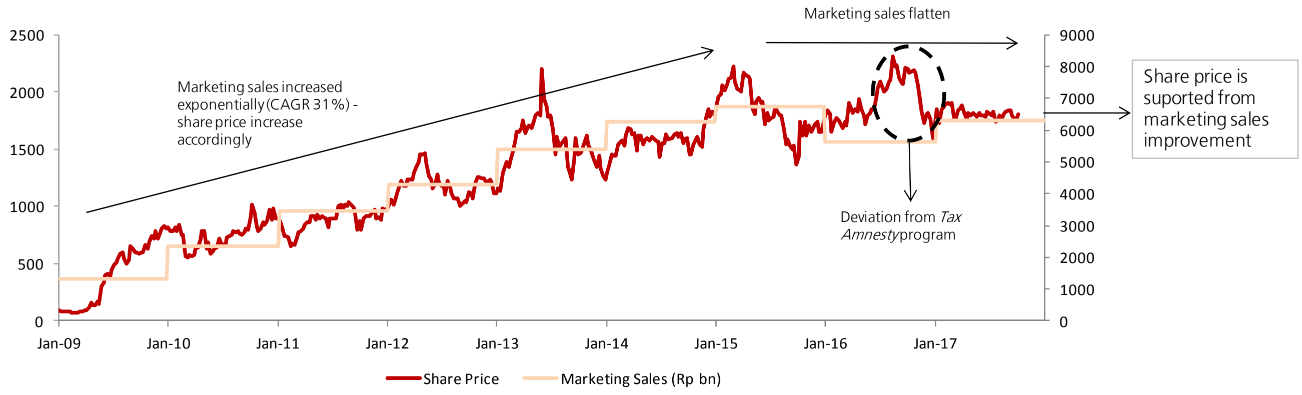
Disc to RNAV trend



Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Marketing sales (ex JV land plot) as critical factor to BSDE share price



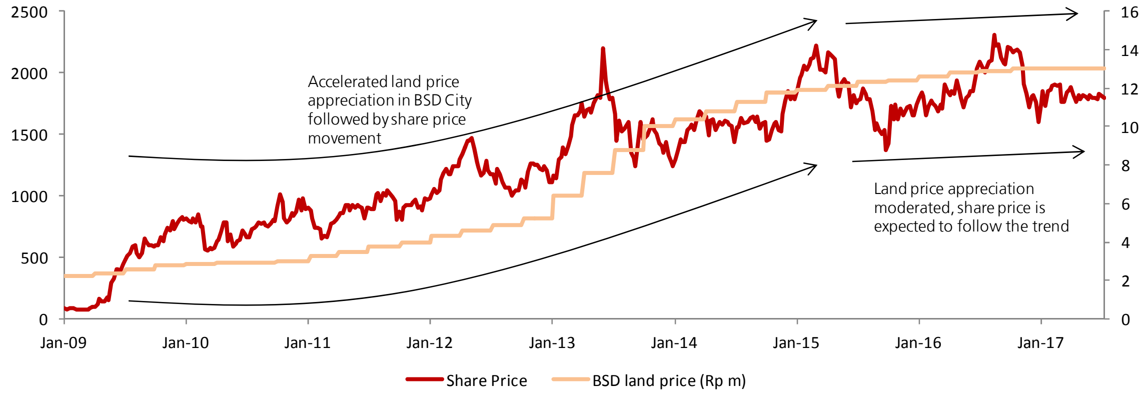
Source: Company, Bloomberg Finance L.P, Company, DBSVI

During 2009 – 2015, Bumi Serpong Damai's marketing sales (excluding JV land plot sales) increased at 31% CAGR. Most of its sales came from Serpong area which at the same time experienced enormous land appreciation. The share price rose accordingly in anticipation of strong growth. However, the share price dropped in mid-2013 due to weak economic conditions.

In 2016, the share price rose on the back of high expectations for the tax amnesty programme in accelerating the property industry's growth back to the pace in boom times. However, the expected growth did not materialise as the property take-up rate was still slow post tax amnesty programme.

After the tax amnesty programme disappointment, the share price moved sideways. We expect marketing sales to grow slightly to Rp6.3tr (excluding Rp840bn JV land plot sales). If our moderate expectation for marketing sales materialises, this can help push the share price north of the current level.

Share price movement depends on BSD City's land price



Source: Bloomberg Finance L.P, BI, Company, DBSVI

We see land price in BSD City as one of the factors that drive BSDE's share price. This is in line with its marketing contribution with c.70% being driven by BSD City projects. During property boom periods, property prices tend to appreciate significantly as demand outstrips supply. At the same time, BSDE's share price will also significantly increase. BSDE's share price appreciation has decelerated during periods of property slowdown, as BSD City's land price appreciation moderates somewhat.

We believe the demand for BSD City properties will remain sluggish, therefore limiting the land price appreciation. At the end of the day, any share price appreciation will remain muted in the short term.

Balance Sheet:

Healthy balance sheet despite gearing up
BSDE had been in a net cash position from 2008 to 2013, as strong cash generation outpaced annual capex requirements. The aggressive fund-raising (for the opportunistic purpose of either investment properties or landbank acquisition) has boosted its balance sheet strength but it is still in a manageable net debt position (15% net gearing as of end-3Q17).

Exposure to US$ debt balanced by US$ holding
BSDE's balance sheet is exposed to USD/IDR volatility after the issuance of 5-year US$200m bonds (at 5.5% annual coupon rate), which represents c.50% of its interest-bearing debt. However, BSDE's large cash position enables it to have sufficient US$ in cash balance to lessen accounting non-cash forex burden.

Share Price Drivers:

Marketing sales achievement and pipeline
Marketing sales achievement is a good indicator for all Indonesia property developers (including BSDE) as it is a leading indicator of revenue generation over the next 2-3 years (depending on the revenue recognition).

Key Risks:

Stricter regulations for high-rise developments. The plot ratio approval and balanced ratio rules, when strictly implemented, could potentially slow property demand. Liquidity tightening could dampen demand further.

Potential interest rate hike. Property demand is sensitive to and is negatively correlated to interest-rate movements.

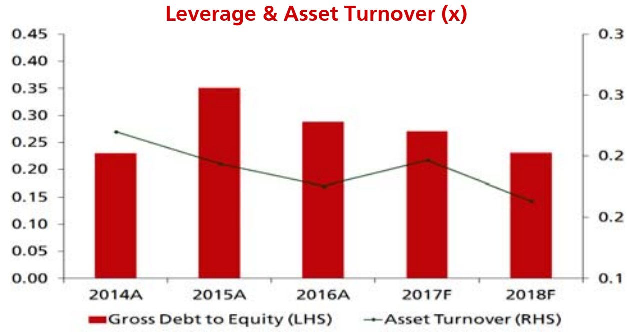
**Exposure to US$,** both financially (i.e. debt in balance sheet) and operationally (i.e. higher material costs, especially for high-rise projects with higher US$-linked items) is a risk if the IDR weakens against the US$.

Strict implementation of potential revisions to housing development balance ratio (for low-end, mid-range and luxury houses). If such revisions are implemented strictly and retroactively, this could potentially mean additional costs for property developers and more complicated property development planning.

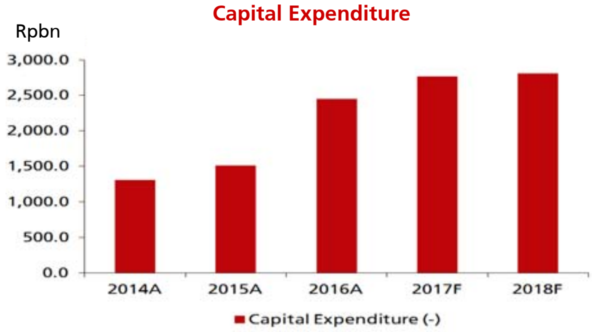
Company Background

BSDE is Indonesia's largest landed residential property developer. Its core project is the development of an integrated satellite city 15km west of Jakarta. BSDE has enlarged its investment property portfolio after consolidating DUTI, SMT and SMW.

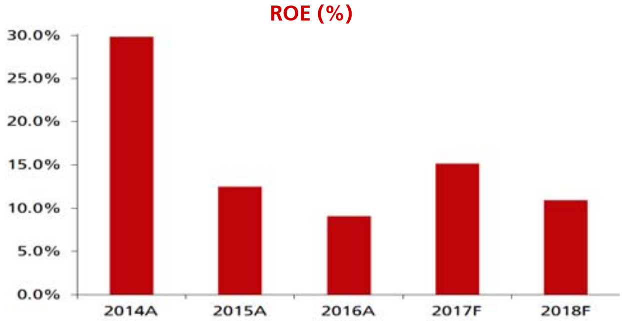
Leverage & Asset Turnover (x)



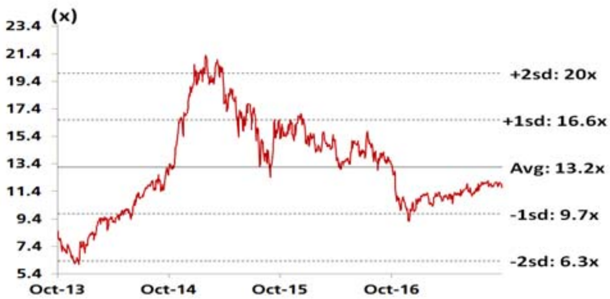
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBSVI

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Marketing sales	6,515	6,768	6,187	7,131	5,545
Sales Trend	5,572	6,210	6,522	8,006	7,140
Net Profit Trend	3,821	2,140	1,796	3,350	2,732
EBIT Margin (%)	79.1	48.9	43.2	55.2	51.1

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (Rpbn)					
Land, house, shophouses,	4,265	4,802	4,775	6,196	5,035
Land and strata title	356	263	506	470	639
Rental	581	722	811	903	1,007
Hotel	103	82.1	82.2	73.2	76.9
Others	102	104	101	106	112
Total	5,572	6,210	6,522	8,006	7,140
Gross Profit (Rpbn)					
Land, house, shophouses,	3,145	3,491	3,342	4,647	3,777
Land and strata title	146	142	258	212	288
Rental	510	637	708	768	856
Hotel	63.6	49.8	52.8	43.9	46.1
Others	102	104	101	106	112
Total	4,132	4,638	4,682	6,007	5,320
Gross Profit Margins (%)					
Land, house, shophouses,	73.7	72.7	70.0	75.0	75.0
Land and strata title	40.9	54.1	51.0	45.0	45.0
Rental	87.7	88.2	87.3	85.0	85.0
Hotel	62.1	60.7	64.3	60.0	60.0
Others	100.0	100.0	100.0	100.0	100.0
Total	74.1	74.7	71.8	75.0	74.5

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	5,572	6,210	6,522	8,006	7,140
Cost of Goods Sold	(1,440)	(1,572)	(1,840)	(2,000)	(1,821)
Gross Profit	4,132	4,638	4,682	6,007	5,320
Other Opng (Exp)/Inc	(1,500)	(1,737)	(1,846)	(1,946)	(2,021)
Operating Profit	2,632	2,901	2,835	4,061	3,299
Other Non Opg (Exp)/Inc	(32.6)	(50.4)	(4.9)	120	107
Associates & JV Inc	1,667	47.6	241	241	241
Net Interest (Exp)/Inc	(99.2)	(324)	(390)	(298)	(247)
Exceptional Gain/(Loss)	140	141	(257)	0.0	0.0
Pre-tax Profit	4,306	2,715	2,425	4,125	3,401
Tax	(310)	(364)	(387)	(444)	(398)
Minority Interest	(176)	(212)	(241)	(331)	(270)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3,821	2,140	1,796	3,350	2,732
Net Profit before Except.	3,681	1,999	2,053	3,350	2,732
EBITDA	4,397	3,094	3,297	4,688	3,954
Growth					
Revenue Gth (%)	(3.0)	11.4	5.0	22.8	(10.8)
EBITDA Gth (%)	33.2	(29.6)	6.6	42.2	(15.7)
Opg Profit Gth (%)	(9.6)	10.2	(2.2)	43.2	(18.8)
Net Profit Gth (Pre-ex) (%)	41.8	(45.7)	2.7	63.2	(18.4)
Margins & Ratio					
Gross Margins (%)	74.1	74.7	71.8	75.0	74.5
Opg Profit Margin (%)	47.2	46.7	43.5	50.7	46.2
Net Profit Margin (%)	68.6	34.5	27.5	41.8	38.3
ROAE (%)	29.8	12.5	9.1	15.1	11.0
ROA (%)	15.1	6.7	4.8	8.2	6.3
ROCE (%)	11.9	9.3	7.6	10.7	7.9
Div Payout Ratio (%)	10.2	7.6	4.5	10.0	10.0
Net Interest Cover (x)	26.5	9.0	7.3	13.6	13.4

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,383	2,268	1,754	2,460	1,614
Cost of Goods Sold	(349)	(735)	(578)	(542)	(447)
Gross Profit	1,034	1,533	1,176	1,917	1,166
Other Oper. (Exp)/Inc	(512)	(497)	(423)	(529)	(626)
Operating Profit	522	1,036	752	1,389	541
Other Non Opg (Exp)/Inc	(12.9)	2.40	25.8	22.8	(113)
Associates & JV Inc	38.8	182	161	98.9	67.2
Net Interest (Exp)/Inc	(88.4)	(83.9)	(81.2)	(50.8)	(72.5)
Exceptional Gain/(Loss)	18.2	(263)	18.6	(8.9)	(13.6)
Pre-tax Profit	479	875	878	1,452	410
Tax	(81.6)	(138)	(85.3)	(115)	(76.8)
Minority Interest	(59.8)	(97.8)	(58.6)	(58.2)	(40.3)
Net Profit	337	638	733	1,277	292
EBITDA	549	1,222	941	1,511	496
Growth					
Revenue Gth (%)	(21.7)	64.0	(22.7)	40.2	(34.4)
EBITDA Gth (%)	(33.3)	122.5	(23.0)	60.7	(67.2)
Opg Profit Gth (%)	(36.3)	98.4	(27.4)	84.6	(61.1)
Net Profit Gth (Pre-ex) (%)	(43.9)	183.1	(20.7)	80.0	(76.2)
Margins					
Gross Margins (%)	74.8	67.6	67.0	78.0	72.3
Opg Profit Margins (%)	37.8	45.7	42.9	56.5	33.5
Net Profit Margins (%)	24.3	28.1	41.8	51.9	18.1

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	3,323	4,081	4,824	5,559	6,252
Invts in Associates & JVs	4,804	5,414	5,863	5,863	5,863
Other LT Assets	8,385	9,738	11,263	13,031	14,842
Cash & ST Invts	3,662	6,793	4,181	6,491	4,466
Inventory	5,239	6,548	7,441	7,624	8,054
Debtors	109	142	401	265	329
Other Current Assets	2,614	3,308	4,319	4,319	4,319
Total Assets	28,135	36,022	38,292	43,152	44,125
ST Debt	1,506	1,989	544	592	592
Creditor	158	317	261	359	182
Other Current Liab	4,840	5,096	6,059	6,813	5,775
LT Debt	2,752	5,762	6,480	6,938	6,459
Other LT Liabilities	406	763	595	595	595
Shareholder's Equity	15,382	18,850	20,581	23,751	26,148
Minority Interests	3,092	3,247	3,772	4,104	4,374
Total Cap. & Liab.	28,135	36,022	38,292	43,152	44,125
Non-Cash Wkg. Capital	2,963	4,584	5,841	5,035	6,744
Net Cash/(Debt)	(595)	(958)	(2,843)	(1,039)	(2,585)
Debtors Turn (avg days)	6.4	7.4	15.2	15.2	15.2
Creditors Turn (avg days)	44.1	84.0	59.0	75.6	44.0
Inventory Turn (avg days)	1,461.2	1,737.4	1,681.5	1,604.6	1,942.1
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	1.8	2.3	2.4	2.4	2.6
Quick Ratio (x)	0.6	0.9	0.7	0.9	0.7
Net Debt/Equity (X)	0.0	0.0	0.1	0.0	0.1
Net Debt/Equity ex MI (X)	0.0	0.1	0.1	0.0	0.1
Capex to Debt (%)	30.6	19.5	34.9	36.8	39.9
Z-Score (X)	3.3	2.6	2.6	2.6	2.7

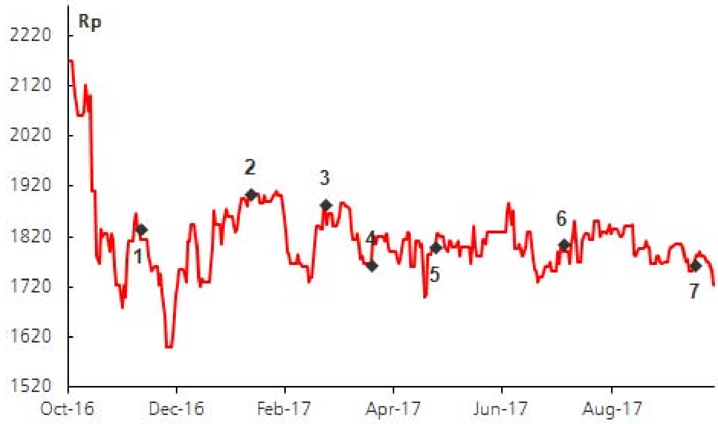
Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	4,306	2,715	2,425	4,125	3,401
Dep. & Amort.	132	196	225	265	307
Tax Paid	(310)	(364)	(387)	(444)	(398)
Assoc. & JV Inc/(loss)	(1,667)	(47.6)	(241)	(241)	(241)
Chg in Wkg.Cap.	(1,262)	(1,621)	(1,256)	805	(1,709)
Other Operating CF	(176)	(249)	(257)	(331)	(270)
Net Operating CF	**2,690**	**678**	**750**	**4,421**	**1,330**
Capital Exp.(net)	(1,304)	(1,510)	(2,451)	(2,768)	(2,811)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(4,281)	(611)	(449)	0.0	0.0
Div from Assoc & JV	(99.4)	156	525	331	270
Other Investing CF	(306)	(440)	(211)	0.0	0.0
Net Investing CF	**(5,990)**	**(2,405)**	**(2,586)**	**(2,436)**	**(2,541)**
Div Paid	(276)	(289)	(96.2)	(180)	(335)
Chg in Gross Debt	164	3,493	(726)	505	(479)
Capital Issues	1,614	1,771	11.9	0.0	0.0
Other Financing CF	(1.6)	(117)	34.4	0.0	0.0
Net Financing CF	**1,501**	**4,858**	**(776)**	**326**	**(814)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(1,799)	3,130	(2,611)	2,310	(2,025)
Opg CFPS (Rp)	215	119	104	188	158
Free CFPS (Rp)	75.4	(43.3)	(88.4)	85.9	(77.0)

Source: Company, DBSVI

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Dec 16	1835	2200	BUY
2:	08 Feb 17	1905	2200	BUY
3:	22 Mar 17	1885	2200	BUY
4:	17 Apr 17	1765	2200	BUY
5:	23 May 17	1800	2200	BUY
6:	03 Aug 17	1805	2200	BUY
7:	16 Oct 17	1765	2200	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBSVI
Analyst: Victor STEFANO

Indonesia Company Guide

Ciputra Development

Version 4 | Bloomberg: CTRA IJ | Reuters: CTRA.JK **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 16 Nov 2017

HOLD

Last Traded Price (16 Nov 2017): Rp1,170 (JCI : 6,037.90)
Price Target 12-mth: Rp1,190 (2% upside) (Prev Rp1,450)

Analyst
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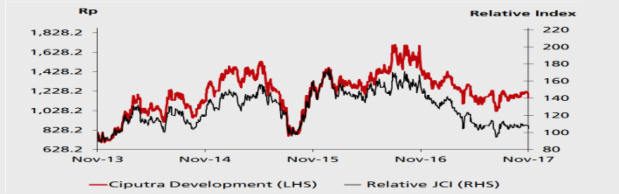
What's New

- Margin compression from apartment, office, and shopping centers
- Surabaya and Makassar will support marketing sales going forward
- FY17F/FY18F earnings revised by -26%/-25%
- Maintain HOLD with lower TP of Rp1,190

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2015A	2016A	2017F	2018F
Revenue	7,514	6,739	6,933	6,539
EBITDA	2,577	2,048	1,898	1,855
Pre-tax Profit	2,223	1,555	1,420	1,408
Net Profit	1,284	1,112	1,003	1,142
Net Pft (Pre Ex.)	1,284	1,112	1,003	1,142
Net Pft Gth (Pre-ex) (%)	(3.1)	(13.4)	(9.9)	13.9
EPS (Rp)	83.7	72.5	54.0	61.5
EPS Pre Ex. (Rp)	83.7	72.5	54.0	61.5
EPS Gth Pre Ex (%)	(4)	(13)	(26)	14
Diluted EPS (Rp)	83.7	72.5	54.0	61.5
Net DPS (Rp)	10.3	7.99	5.72	5.16
BV Per Share (Rp)	751	825	730	786
PE (X)	14.0	16.1	21.7	19.0
PE Pre Ex. (X)	14.0	16.1	21.7	19.0
P/Cash Flow (X)	27.3	165.3	22.8	40.5
EV/EBITDA (X)	8.4	11.0	14.0	14.7
Net Div Yield (%)	0.9	0.7	0.5	0.4
P/Book Value (X)	1.6	1.4	1.6	1.5
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	13.4	9.2	7.7	8.1
Earnings Rev (%):		-	(26)	(25)
Consensus EPS (Rp):		N/A	56.6	70.9
Other Broker Recs:		B: 22	S: 2	H: 3

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P

Fairly priced

Earnings recovered from lower expenses albeit lower gross margins from negative margins in apartment segment. Ciputra Development (CTRA) booked 3Q17 net profit of Rp227bn (+84% q-o-q, -6% y-o-y). Key result highlights are as follows: The lower SG&A expenses recorded was expected due to seasonality. However, gross margin was low at 44.5% (the lowest since 2010) due to losses in apartment segment (-5% margin) combined with lower margin of office and shopping centers, partly offset by higher margin in land lot segment.

Where we differ: Contrary to consensus bullish view. We believe consensus is overestimating the recovery in property demand. We maintain our HOLD call as we expect demand will grow at a slow pace next year.

Potential catalyst: Lower than expected marketing sales achivement. Despite the optimism in the property sector this year, our concern of weak demand still holds. We are expecting a less stellar improvement in marketing sales at 9% y-o-y, which is lower than the company's guidance which expects marketing sales to grow by 18% to Rp8.5tr.

Valuation:

We value CTRA using RNAV and arrive at a TP of Rp1,190 which is based on 29% (pegged to its 5-year average) discount to our base-case RNAV. Our RNAV of Rp1,675 is revised from Rp2,042 previously as we adjusted our take up rate and ASP growth assumptions. We maintain our HOLD call as CTRA is currently trading at 30% discount to our base-case RNAV.

Key Risks to Our View:

Faster than expected demand recovery especially in Greater Jakarta, Greater Surabaya, and Sulawesi (together they contributed 80% of 9M17 marketing sales) could push CTRA's share price higher.

At A Glance

Issued Capital (m shrs)		18,560
Mkt. Cap (Rpbn/US$m)		21,716 / 1,605
Major Shareholders (%)		
Sang Pelopor	30.3	
Credit Suisse Singapore (%)	7.9	
Free Float (%)	69.5	
3m Avg. Daily Val (US$m)		1.4

ICB Industry : Real Estate / Real Estate Investment & Services

WHAT'S NEW

Haunted by weak demand

Earnings boost despite lower margin

CTRA booked 3Q17 net profit of Rp227bn (+84% q-o-q, -6% y-o-y). Gross margin was low at 44.5% (lowest since 2010) due to loss (-5% margin) in apartment segment combined with lower margin of office and shopping center segment, partly offset by higher margin in land lot segment. Office margin dropped to 31% from 41% in previous quarter while shopping center margin dropped to 55% from 72%.

The Rp227bn net profit in 3Q17 brings CTRA's 9M17 earnings to Rp566bn (+18% y-o-y), representing 53% and 66% of our and consensus estimates respectively.

Weak demand

Supported by service apartment bulk sales to Ascott

As at 10M17, CTRA had booked Rp6.2tr marketing sales, a 7% increase over same period last year. This represented 87% of the 10M17 target, helped by its North West Hill project in Citraland Surabaya and bulk sales of service apartments in CWJ 2 to Ascott. Excluding pre-sales to Ascott, CTRA's marketing sales achivement would come in at 78% of its target. However, despite pre-sales to Ascott, CTRA's 10M17 marketing sales of Rp6.2tr still lags behind (73%) its FY17 target of Rp8.5tr.

Needs more cash

Gearing is creeping up

Despite its strong cash position of Rp4.3tr as end of Sep-17, CTRA's net gearing stood at 27%, slightly below its policy of a maximum 30%. CTRA's net gearing has increased from 20% as of Mar-17 due to its new SGD bond issuance. In Sep-17, CTRA issued S$150m MTN with 4.85% coupon which matures in 2021. The MTN had an additional S$50m facility.

With more high-rise projects, Makasar reclamation project, and softer payment terms in view of weak property demand, we believe the company will need more cash. Even with the additional S$50m facility from its recent MTN issuance, the company will need to increase land plot sales or inject more capital based on its maximum 30% gearing policy.

Outlook

Greater Surabaya contribution is overtaking Greater Jakarta

Over the past few years, Greater Surabaya's contribution to marketing sales is getting larger. In 2013, Greater Jakarta contributed 35% of total marketing sales while Greater Surabaya contributed only 17%. Greater Surabaya's contribution has steadily risen to 37%, overtaking Greater Jakarta's 33% in FY16. In 9M17 Greater Surabaya's marketing sales stood at Rp1.8tr (35%), higher than Greater Jakarta's marketing sales of Rp1.4tr (26%).

Most of Greater Surabaya's marketing sales was booked in 3Q17, and dominated by Citraland Surabaya project. About half of 3Q17 marketing sales was attributable to Citraland Surabaya with the succesful launch of North West Hill cluster. We note that Citraland Surabaya had only contributed 9% to marketing sales in each of 1Q17 and 2Q17.

Sulawesi is getting traction

Pre-sales from CTRA's Sulawesi projects has doubled from less than 10% in 2013 to 19% in 9M17. Most of Sulawesi's pre-sales came from Makassar City from one of its biggest reclamation projects i.e. Citraland Losari. Since its inception in late 2015, the project has booked Rp1.85tr pre-sales. Its new project, Citraland Talassa City Makasar, as launched in 2Q17, and has booked Rp300bn pre-sales. This is a rather good showing for a new project. We believe Sulawesi will continue to contribute strongly in view of weak demand in Greater Jakarta area.

Marketing sales to reach Rp7.8tr

We expect the company to grow its FY17F marketing sales by 12% to Rp7.85tr from Rp7.19tr last year. We expect marketing sales from high rise and landed to reach Rp1.8tr and Rp6tr respectively in FY17F. The company guided Rp400bn and Rp300bn from its CWJ 2 and Citra Plaza Batam high rise developements in 4Q17.

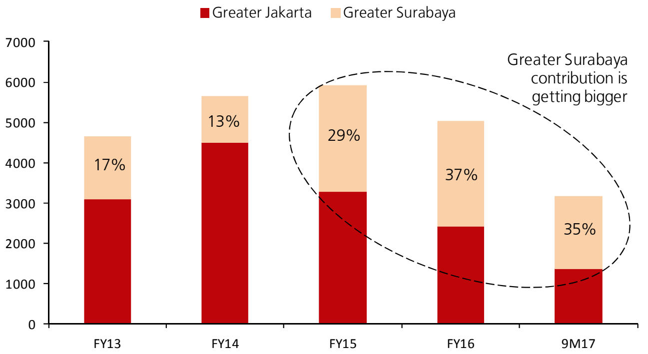
FY17F/FY18F earnings revised by -26%/-25%

We revised down CTRA's earnings forecast by 26%/25% to account for lower gross margins from higher recognition of high rise residential units and interest expenses.

Valuation

We value the counter using RNAV and arrive at TP of Rp1,190 which is based on 29% (pegged to its 5-year average) discount to our base-case RNAV. Our RNAV of Rp1,675 is revised from Rp2,042 previously as we adjusted our take up rate and ASP growth assumptions. We maintain our HOLD call as CTRA is currently trading at 30% discount to our base-case RNAV.

Greater Jakarta and Greater Surabaya marketing sales (Rp bn)



Source: company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	1,540	1,555	1,522	(1.2)	(2.1)
Cost of Goods Sold	(812)	(756)	(844)	3.9	11.6
Gross Profit	728	799	678	(6.9)	(15.2)
Other Oper. (Exp)/Inc	(285)	(498)	(301)	5.5	(39.6)
Operating Profit	443	302	378	(14.8)	25.2
Other Non Opg (Exp)/Inc	82.1	(9.7)	25.0	(69.5)	nm
Associates & JV Inc	(0.8)	(3.2)	(2.8)	(273.7)	(10.4)
Net Interest (Exp)/Inc	(121)	(72.2)	(92.1)	23.9	(27.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	404	217	308	(23.8)	42.1
Tax	(74.8)	(75.7)	(51.6)	(31.0)	(31.9)
Minority Interest	(87.9)	(17.6)	(29.4)	66.6	66.7
Net Profit	241	123	227	(5.9)	84.1
Net profit bef Except.	241	123	227	(5.9)	84.1
EBITDA	443	302	378	(14.8)	25.2
Margins (%)					
Gross Margins	47.3	51.4	44.5		
Opg Profit Margins	28.8	19.4	24.8		
Net Profit Margins	15.6	7.9	14.9		

Source of all data: Company, DBSVI

CTRA RNAV summary

CTRA portfolio	Stake	RNAV
Investment property		
Ciputra Mall Jakarta	81%	558
Ciputra Mall Semarang	99%	428
Ciputra World Surabaya Mall	100%	710
Lotte Shopping Avenue (CWJ 1)	98%	1,419
DBS Bank Tower (CWJ 1)	98%	931
Office Tower 2 (CWJ 1)	98%	-
Tokopedia Tower (CWJ 2)	100%	686
Ciputra Hotel Jakarta	81%	286
Ciputra Hotel Semarang	99%	116
Citra Dream Semarang	81%	16
Citra Dream Cirebon	81%	9
Citra Dream Yogyakarta	81%	11
Citra Dream Bandung	81%	2
Citra Dream Bengkulu	81%	-
Citra Dream Tangerang	81%	30
Raffles Hotel (CWJ 1)	98%	416
W Hotel (CWJ 2)	100%	315
Somerset Apartment Jakarta	43%	257
Fraser Suite (CWJ 2)	100%	581
Total investment property surplus value (Rp bn) - 1		6,772
Development property		
Direct & JV		
My Home (CWJ 1)	98%	-
Raffles Residence (CWJ 1)	98%	36
DBS Bank Tower (CWJ 1)	98%	33
Office Tower 2 (CWJ 1)	98%	858
Ascott (CWJ 1)	98%	-
Orchard (CWJ 2)	100%	44
The Residence (CWJ 2)	100%	557
The Suites (CWJ 2)	100%	32
Tokopedia Tower (CWJ 2)	100%	261
Newton (CWJ 2 Ext.)	92%	257
Newton 2 (CWJ 2 Ext.)	92%	259
Amsterdam (C. International)	55%	4
Barc./San Fr. (C. International)	55%	6
Office T.2 (C. International)	55%	(10)
Office T.3 (C. International)	55%	36
CW Apartments Surabaya (Voila)	53%	14
CW Condotel Surabaya	53%	-
CW SOHO Surabaya (Skyloft)	53%	2
CW Office Surabaya	53%	29
CW New SOHO Surabaya (Vielof	53%	41
Vida View apartment	100%	97
Citra Towers Kemayoran	100%	212
Citralake Suites (CGC)	51%	67
Citralake Living (CGC)	100%	26
Cornell (Citraland SBY)	100%	1
Denver (Citraland SBY)	100%	1
Ecopolis (Citraraya TGR)	51%	12
Fatmawati Project	100%	-
Dipo Business Center	99%	-
Citra Plaza Kemayoran	100%	-
Citra Plaza Batam	50%	8
Citragarden City Jakarta	100%	1,703
Citraraya Tangerang	100%	1,057
Citraindah Jonggol	100%	79
Citraland Surabaya	100%	4,741
Citraharmoni Sidoarjo	100%	225
Citra Garden Lampung	100%	9
Citraland Lampung	100%	177
Kozko Yogyakarta	100%	-
Citragarden Angsana Samarinda	100%	-
Vida View Commercial	100%	-
Citragarden Sidoarjo	60%	39
Rosewood Villa Bali	60%	-
The Nivata Bali	60%	46
Citraland Pekanbaru	60%	29
Citraland NGK Jambi	51%	5
Citraland Tegal	51%	4
Bizpark CE Banjarmasin	51%	-
Citraland Cibubur	60%	127
The Sadana Bali	60%	72
JO - Revenue Sharing		
Taman Dayu Pandaan	100%	765
Citraland City Samarinda	100%	40
Citra Bukitindah Balikpapan	100%	10
Citraland Kendari	100%	1
Citraland Palu	100%	30
Citraland Banjarmasin	100%	35
Citraland Celebes Makassar	100%	2
Citragarden Pekalongan	100%	(2)
Citraland Botanical City PP	100%	15
Citragarden Pekanbaru	100%	(5)
Citraland Cirebon	100%	(9)
Citralake Sawangan	100%	30
Citraland Megah Batam	100%	26
Citragarden Galesong City	100%	17
Citraland Puri Serang	100%	(33)
Citragrand Senyiur City SMD	100%	613
JO - Profit Sharing		
Citragrand City Palembang	100%	196
Citraindah Sidoarjo	100%	-
Citra Green Dago Bandung	100%	137
Citrasun Garden Semarang	100%	43
Citraland Denpasar	60%	79
Citrasun Garden Jogjakarta	100%	8
Citragrand Semarang	100%	99
Citragrand Mutiara Jogjakarta	100%	12
Citraraya City Jambi	100%	819
Citraland BSB City Semarang	100%	136
Citragrand Bagya City Medan	100%	233
Citragarden BMW Cilegon	100%	110
Citramitra City Banjarbaru	100%	130
Citraland Green Lake Surabaya	100%	280
Citracity Balikpapan	100%	10
Citragarden Aneka Pontianak	100%	442
Citramaja Raya	100%	76
Citragarden City Malang	100%	256
Citraland City Losari Makassar	100%	2,178
Citra Aerolink Batam	100%	69
Citragarden City Samarinda	100%	203
Citraland Talasa City Makassar	100%	467
Citragrand Palu	100%	-
Citragrand Kendari	100%	-
Total development property surplus value (Rp bn) - 2		18,715
Land Bank		
Citra Garden City	100%	521
Citra Raya Tangerang	100%	2,305
Citra Indah Jonggol	100%	408
Citra Land Surabaya	100%	5,240
Citra Harmoni Sidoarjo	100%	216
Citra Land Lampung	100%	33
Citra Land Pekanbaru	100%	6
Citra Land NGK Jambi	100%	3
Total land bank surplus value (Rp bn) - 3		8,732

Net cash (debt) - 4	(3,128)
RNAV = 1 + 2 + 3 + 4	31,091
Fully diluted share base (bn)	18.6
RNAV per share	1,675

Source: Company

CRITICAL DATA POINTS TO WATCH

Critical Factors

Marketing sales as share price proxy
Marketing sales will translate into revenue which in turn will determine profitability of property companies. Catching a glimpse of marketing sales movements can dictate share price direction.

CTRA is a well diversified property company. Although it has many projects across the country, historically, Greater Jakarta and Surabaya contribute half of its marketing sales. Therefore, any surprise in these two areas will have a great impact on CTRA's marketing sales achievement.

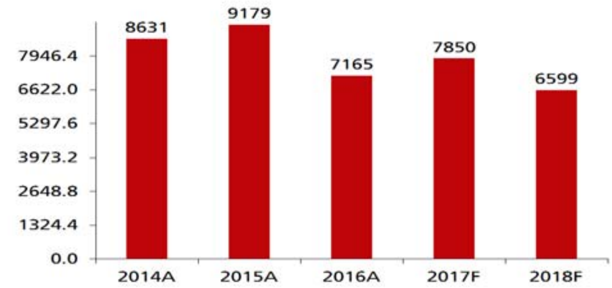
Property price growth will drive share price
We see high correlation between property price growth with CTRA's share price. Strong property price growth indicates high demand for property. Since end of 2013, property price growth has continued to decline, an indication that the property industry has been slowing down.

Property price is expected to be flat (<1% growth) in FY17. We see a bottom in property prices in 2017 before recovering going forward.

Keep an eye on mortgage rate
After a combination of property boom cycle, which caused property prices to soar, and several relaxations on LTV, mortgages have become more appealing to property buyers. Lower mortgage rate will boost demand for property. This will in turn provides a positive catalyst for CTRA's share price.

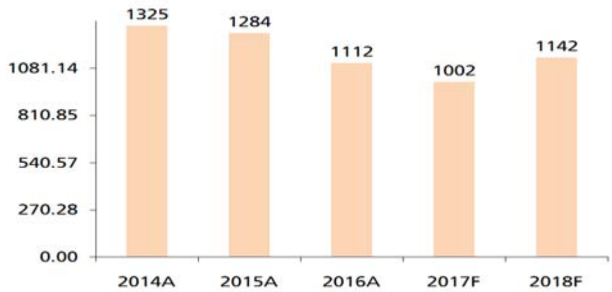
Affordability is key in property recovery
Property price growth has been decelerating since 2014, making properties more affordable. Subject to an improving economy, bottoming property prices will provide potential upside for marketing sales growth (thus share price).

Marketing sales

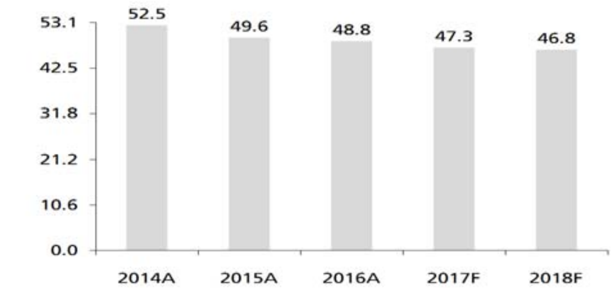


Sales Trend

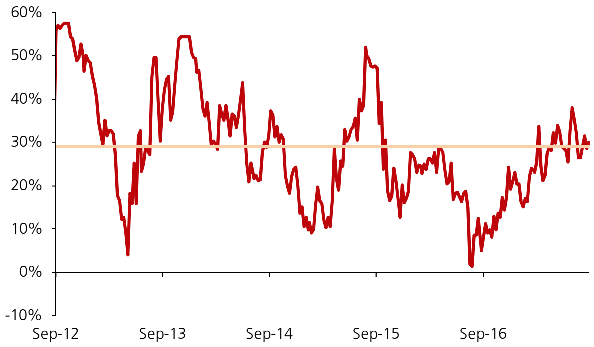
Net Profit



Gross Margin



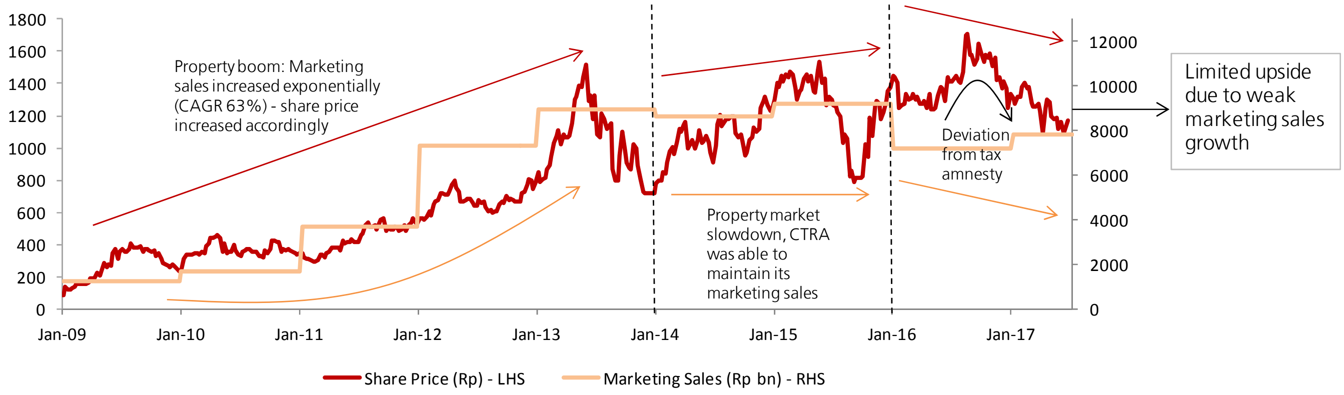
Disc to RNAV Trend



Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Marketing sales as critical factor to CTRA's share price



Source: Company, Bloomberg Finance L.P., DBSVI

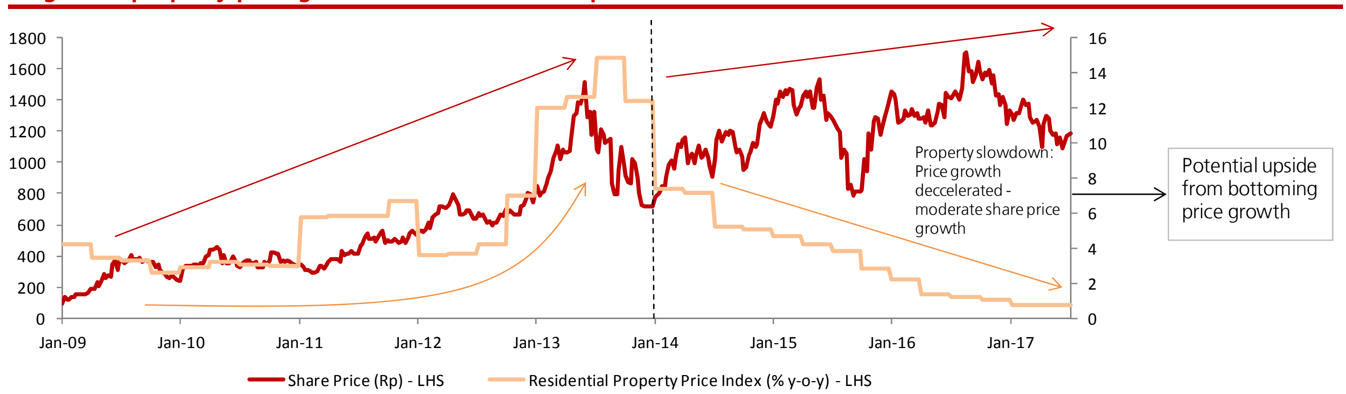
CTRA's share price is driven by marketing sales

Strong marketing sales growth during 2009 – 2013 (63% CAGR) has been a strong catalyst for CTRA's share price. In mid 2013, despite its strong marketing sales achievement, CTRA's share price dropped significantly on the back of weaker than expected economic conditions.

In 2014, CTRA marketing sales growth was impeded. However the share price still rose on the back of positive sentiment from presidential election. The new president, Joko Widodo, has favoured construction programmes which also has a positive impact on properties-related industries. After the election euphoria, CTRA's share price corrected in mid-15, only to rise once again due to positive sentiment from Tax Amnesty program in mid-late 2016.

After the disappointment from the Tax Amnesty program, share price declined. We expect marketing sales to grow slightly to Rp7.85tr (vs management's guidance of Rp8.5tr). We believe low marketing sales growth will cap CTRA's share price at the current level.

Degree of property price growth determines share price rise



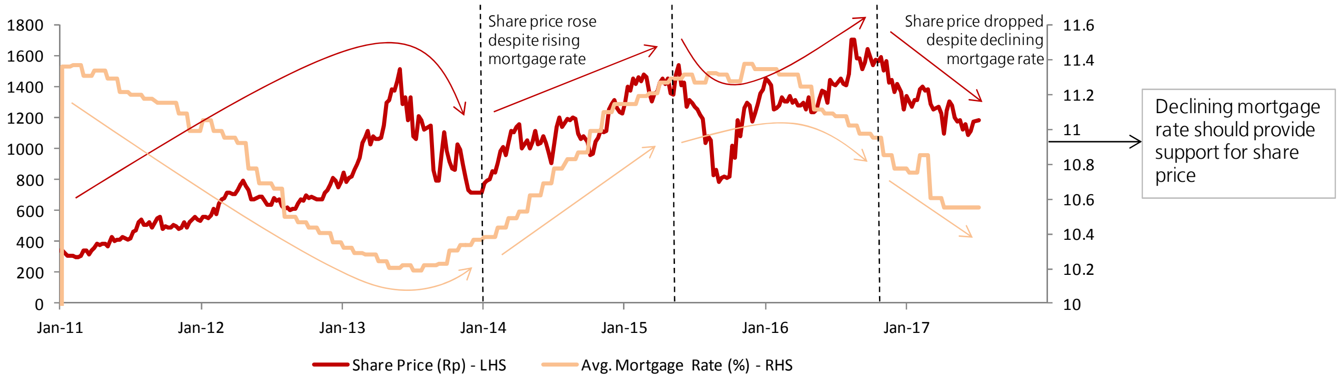
Source: Bloomberg Finance L.P., BI, DBSVI

When property price appreciates, so does CTRA's share price

We see property price growth as one of the drivers to CTRA's share price. During the property boom, property prices had appreciated significantly as demand was greater than supply. At the same time, CTRA share price had also significantly increased (63% CAGR during 2009 - 2013). CTRA's share price dropped during property slowdown as property prices growth were declining.

We believe property prices will remain muted in the short term. This will in turn limit CTRA's share price growth. In our view, CTRA share price has limited downside risk as we believe property prices have bottomed.

Mortgage rate is inversely correlated with share price



Source: Bloomberg Finance L.P., BI, DBSVI

At the moment, mortgage rate and share prices are declining

Monitoring the mortgage rate is a good parameter to determine CTRA's share price movement. Historically, these are inversely correlated. It was only during early 2014 – mid 2015 that share price moved in the same direction. We believe share price appreciation was driven by positive sentiment from presidential elections as well as capital inflow.

There was a deviation during late 2016, where share price depreciated despite declining mortgage rate. We believe share price did not appreciate due to several factors such as 1) political and security issues which led to slow marketing sales, 2) uncertainties of several property regulations, and 3) oversupply in properties causing slower price growth, thus reducing investor appetite.

Balance Sheet:

Healthy balance sheet with reasonably low net gearing

CTRA was in net cash position from 2008 to 2013, as strong cash generation outpaced annual capex requirements. But, the accelerated progress of its superblock developments required more capex, and therefore, net gearing shot up to 27% as end of Sep-17. Combined with slowing demand and its policy of having net gearing at 30% maximum, we believe the company needs to raise funds to accomodate the superblock developments.

Share Price Drivers:

Marketing sales achieved and pipeline

Marketing sales are a good indicator for all Indonesia property developers (including CTRA), as it is a leading indicator of revenue generation for the next 2-3 years (depending on revenue recognition).

Key Risks:

Stricter regulations for high-rise developments. The plot ratio approval and balanced ratio rules, when strictly implemented, could potentially slow property demand. Liquidity tightening could dampen demand further.

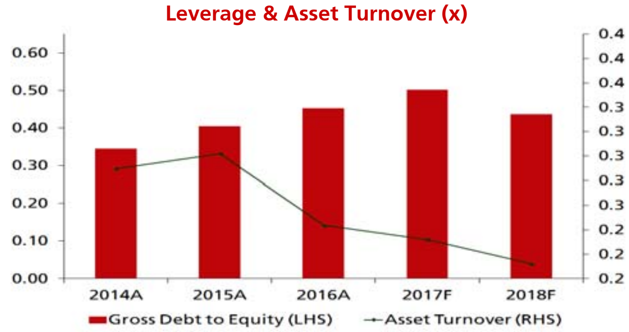
Potential interest rate hike. Property demand is sensitive to and is negatively correlated to interest-rate movements.

Strict implementation of potential revisions to housing development balance ratio (for low-end, mid-range and luxury houses). If such revisions are implemented strictly and retroactively, this could potentially mean additional costs for property developers and more complicated property development planning.

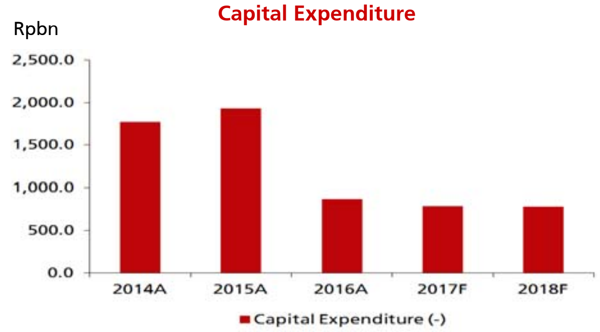
Company Background

CTRA is a large scale residential and commercial developer, with a presence in 33 major cities throughout Indonesia, and has the most diversified product and customer range. The company was established in 1981 and has two listed subsidiaries – Ciputra Surya (CTRS) and Ciputra Property (CTRP). As of Dec-16, both subsidiaries were consolidated back to CTRA.

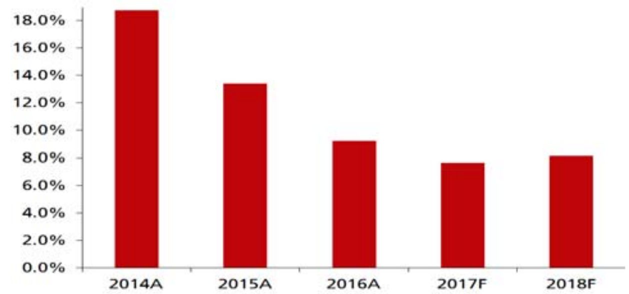
Leverage & Asset Turnover (x)



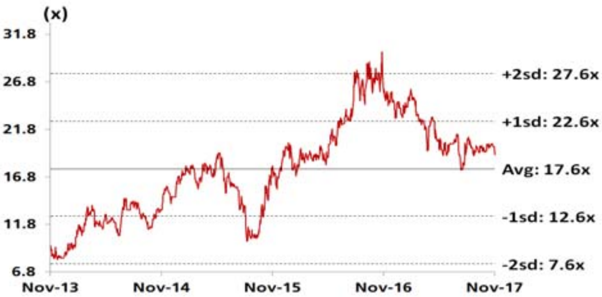
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBSVI

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Marketing sales	8,631	9,179	7,165	7,850	6,599
Sales Trend	6,344	7,514	6,739	6,933	6,539
Net Profit	1,325	1,284	1,112	1,003	1,142
Gross Margin	52.5	49.6	48.8	47.3	46.8

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (Rpbn)					
Land lots	165	188	225	227	218
Offices	349	209	208	210	132
Apartments	831	1,580	791	800	503
Houses and Shophouses	3,875	4,157	3,841	3,883	3,730
Total	6,344	7,514	6,739	6,933	6,539
Gross Profit (Rpbn)					
Land lots	122	123	135	159	131
Offices	165	75.5	78.3	79.2	47.5
Apartments	1,974	2,135	1,780	1,799	1,679
Houses and Shophouses	666	793	1,001	941	1,013
Total	2,926	3,127	2,994	2,978	2,870
Gross Profit Margins (%)					
Land lots	73.9	65.4	59.9	70.0	60.0
Offices	47.1	36.1	37.7	37.7	36.0
Apartments	237.5	135.1	224.9	224.8	333.9
Houses and Shophouses	59.2	57.5	59.8	51.9	51.8
Others	N/A	N/A	N/A	N/A	N/A
Total	46.1	41.6	44.4	43.0	43.9

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	6,344	7,514	6,739	6,933	6,539
Cost of Goods Sold	(3,011)	(3,786)	(3,450)	(3,656)	(3,481)
Gross Profit	3,334	3,729	3,290	3,278	3,058
Other Opng (Exp)/Inc	(1,130)	(1,376)	(1,484)	(1,642)	(1,483)
Operating Profit	2,204	2,353	1,806	1,636	1,575
Other Non Opg (Exp)/Inc	43.6	62.8	45.6	6.90	47.2
Associates & JV Inc	4.00	6.50	(2.0)	3.30	3.10
Net Interest (Exp)/Inc	(104)	(199)	(294)	(226)	(217)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2,147	2,223	1,555	1,420	1,408
Tax	(353)	(483)	(385)	(347)	(196)
Minority Interest	(469)	(457)	(58.5)	(71.0)	(70.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,325	1,284	1,112	1,003	1,142
EBITDA	2,403	2,577	2,048	1,898	1,855
Growth					
Revenue Gth (%)	25.0	18.4	(10.3)	2.9	(5.7)
EBITDA Gth (%)	41.5	7.2	(20.5)	(7.4)	(2.2)
Opg Profit Gth (%)	41.9	6.8	(23.3)	(9.4)	(3.7)
Net Profit Gth (Pre-ex) (%)	35.7	(3.1)	(13.4)	(9.9)	13.9
Margins & Ratio					
Gross Margins (%)	52.5	49.6	48.8	47.3	46.8
Opg Profit Margin (%)	34.7	31.3	26.8	23.6	24.1
Net Profit Margin (%)	20.9	17.1	16.5	14.5	17.5
ROAE (%)	18.7	13.4	9.2	7.7	8.1
ROA (%)	6.1	5.2	4.0	3.4	3.7
ROCE (%)	12.8	10.7	6.9	5.6	5.8
Div Payout Ratio (%)	29.2	11.9	9.5	9.5	9.5
Net Interest Cover (x)	21.2	11.8	6.1	7.3	7.3

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,540	2,320	1,271	1,555	1,522
Cost of Goods Sold	(812)	(1,169)	(667)	(756)	(844)
Gross Profit	728	1,151	604	799	678
Other Oper. (Exp)/Inc	(285)	(424)	(316)	(498)	(301)
Operating Profit	443	727	288	302	378
Other Non Opg (Exp)/Inc	82.1	(44.7)	33.4	(9.7)	25.0
Associates & JV Inc	(0.8)	(1.9)	(3.3)	(3.2)	(2.8)
Net Interest (Exp)/Inc	(121)	(23.6)	(84.1)	(72.2)	(92.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	404	657	234	217	308
Tax	(74.8)	(155)	(71.7)	(75.7)	(51.6)
Minority Interest	(87.9)	131	(11.6)	(17.6)	(29.4)
Net Profit	241	633	151	123	227
EBITDA	443	727	288	302	378
Growth					
Revenue Gth (%)	(2.1)	50.6	(45.2)	22.4	(2.1)
EBITDA Gth (%)	47.0	64.1	(60.4)	4.8	25.2
Opg Profit Gth (%)	47.0	64.1	(60.4)	4.8	25.2
Net Profit Gth (Pre-ex) (%)	156.0	162.7	(76.2)	(18.2)	84.1
Margins					
Gross Margins (%)	47.3	49.6	47.5	51.4	44.5
Opg Profit Margins (%)	28.8	31.3	22.7	19.4	24.8
Net Profit Margins (%)	15.6	27.3	11.8	7.9	14.9

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	6,555	7,483	7,942	8,336	8,721
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	5,889	6,753	7,451	7,845	8,246
Cash & ST Invts	2,889	3,035	3,468	4,530	3,468
Inventory	6,429	7,010	7,914	7,199	6,748
Debtors	765	874	938	756	713
Other Current Assets	1,012	1,104	1,360	2,039	3,059
Total Assets	23,539	26,259	29,072	30,704	30,955
ST Debt	804	1,375	1,486	1,486	1,486
Creditor	773	914	829	814	776
Other Current Liab	6,848	6,769	7,208	6,693	6,371
LT Debt	3,217	3,902	4,976	6,171	5,665
Other LT Liabilities	245	249	275	275	275
Shareholder's Equity	7,648	11,510	12,644	13,540	14,586
Minority Interests	4,004	1,541	1,654	1,726	1,796
Total Cap. & Liab.	23,539	26,259	29,072	30,704	30,955
Non-Cash Wkg. Capital	585	1,306	2,174	2,487	3,373
Net Cash/(Debt)	(1,132)	(2,243)	(2,994)	(3,128)	(3,683)
Debtors Turn (avg days)	37.6	39.8	49.1	44.6	41.0
Creditors Turn (avg days)	93.2	93.6	94.4	87.6	88.4
Inventory Turn (avg days)	734.0	718.3	900.7	774.2	769.4
Asset Turnover (x)	0.3	0.3	0.2	0.2	0.2
Current Ratio (x)	1.3	1.3	1.4	1.6	1.6
Quick Ratio (x)	0.4	0.4	0.5	0.6	0.5
Net Debt/Equity (X)	0.1	0.2	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.1	0.2	0.2	0.2	0.3
Capex to Debt (%)	44.0	36.6	13.4	10.3	10.9
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	2,147	2,223	1,555	1,420	1,408
Dep. & Amort.	199	224	243	262	280
Tax Paid	(353)	(483)	(385)	(347)	(196)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1,816)	(721)	(868)	(313)	(886)
Other Operating CF	(465)	(586)	(437)	(71.0)	(70.4)
Net Operating CF	**(288)**	**657**	**109**	**951**	**536**
Capital Exp.(net)	(1,769)	(1,930)	(866)	(788)	(778)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	616	(2,464)	114	71.0	70.4
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(270)	(80.5)	(508)	(262)	(288)
Net Investing CF	**(1,423)**	**(4,474)**	**(1,260)**	**(979)**	**(996)**
Div Paid	(285)	(158)	(123)	(106)	(95.7)
Chg in Gross Debt	1,293	1,256	1,185	1,195	(506)
Capital Issues	255	2,894	526	0.0	0.0
Other Financing CF	(138)	(29.1)	(3.6)	0.0	0.0
Net Financing CF	**1,124**	**3,964**	**1,585**	**1,089**	**(602)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(587)	146	433	1,062	(1,062)
Opg CFPS (Rp)	101	89.9	63.7	68.1	76.6
Free CFPS (Rp)	(136)	(83.1)	(49.4)	8.81	(13.1)

Source: Company, DBSVI

Pakuwon Jati

Version5 | Bloomberg: PWON IJ | Reuters: PWON.JK

DBS Group Research . Equity

27 Oct 2017

HOLD

Last Traded Price (26 Oct 2017): Rp640 (JCI : 5,995.80)
Price Target 12-mth: Rp615 (-4% downside)

Analyst
Victor STEFANO +6221 3003 4934
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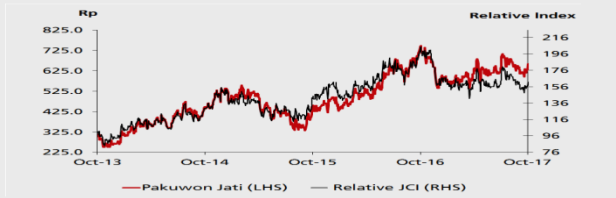
What's New

- Strong 3Q17 performance backed by its robust recurring income
- FY17F/FY18F earnings adjusted by +10%/+2%
- The stock currently trades at 10% discount to RNAV, premium to its 5-year average of 16%
- Maintain HOLD with TP of Rp615

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2015A	2016A	2017F	2018F
Revenue	4,625	4,841	5,546	5,999
EBITDA	2,535	2,593	3,109	3,400
Pre-tax Profit	1,741	2,057	2,455	2,650
Net Profit	1,262	1,671	1,967	2,123
Net Pft (Pre Ex.)	1,539	1,645	1,941	2,097
Net Pft Gth (Pre-ex) (%)	7.2	6.9	18.0	8.0
EPS (Rp)	26.2	34.7	40.8	44.1
EPS Pre Ex. (Rp)	32.0	34.1	40.3	43.5
EPS Gth Pre Ex (%)	7	7	18	8
Diluted EPS (Rp)	26.2	34.7	40.8	44.1
Net DPS (Rp)	4.50	4.50	6.94	8.17
BV Per Share (Rp)	150	180	214	250
PE (X)	24.4	18.4	15.7	14.5
PE Pre Ex. (X)	20.0	18.7	15.9	14.7
P/Cash Flow (X)	15.6	13.7	8.6	10.9
EV/EBITDA (X)	14.2	13.9	11.5	11.0
Net Div Yield (%)	0.7	0.7	1.1	1.3
P/Book Value (X)	4.3	3.5	3.0	2.6
Net Debt/Equity (X)	0.3	0.3	0.2	0.3
ROAE (%)	18.9	21.0	20.7	19.0
Earnings Rev (%):		0	10	2
Consensus EPS (Rp):		N/A	40.3	45.9
Other Broker Recs:		B: 15	S: 0	H: 9

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

It comes with a rather steep price

Strong investment property growth
Despite a weak property market environment, Pakuwon Jati (PWON) is the only property developer whose share price performance has been positive since property boom. We believe PWON's share performance is supported by its ability to grow its investment property revenue by 21% CAGR since 2013. We expect PWON to book Rp2.4tr marketing sales this year, lower than management's guidance of Rp2.5tr.

Where we differ
We are approaching the stock with a more cautious stance as the stock is trading above its five years average, in our view. Since mid-2013 when the property sector hit its peak, PWON`s share price is the only one that has appreciated 45% while the overall property sector lost 32% and JCI grew by only 16%.

Potential catalyst
Improvement in marketing sales achievement among property developers could change investor sentiment towards PWON. We believe PWON`s share performance has been supported by favorable mix in its recurring and non-recurring portion which provide some buffer during weak demand environment.

Valuation

Our target price of Rp615 is pegged to a 16% discount to our base-case RNAV (based on its 5-year average). PWON is currently trading at a 10% discount to our RNAV estimate (+0.5SD from its 5-year average).

Key Risks to Our View

USD depreciation and higher interest rate
USD debt and construction costs (especially for the high rise projects) have left PWON exposed to foreign exchange risk. A higher interest rate environment might also translate into lower property demand.

Slower take-up at launches
Weaker property affordability, potential increase in interest rates and stricter implementation of requirements for high-rise developments could prompt delays in launching its project pipeline, resulting in lower-than-expected marketing sales.

At A Glance

Issued Capital (m shrs)	48,160
Mkt. Cap (Rpbn/US$m)	30,822 / 2,258
Major Shareholders (%)	
Burgami Investments Ltd	20.9
Pakuwon Arthaniaga	16.8
Concord Media Investment Ltd	7.4
Free Float (%)	47.8
3m Avg. Daily Val (US$m)	1.5
ICB Industry : Real Estate / Real Estate Investment & Services	

WHAT'S NEW

Strong performance but valuations are lofty

Robust growth from top to bottom

Pakuwon booked Rp1.4tr revenue (+21% y-o-y, -8% q-o-q), with net profit coming in at Rp523bn (+26% y-o-y, -5% q-o-q). EBIT margin remained robust at 48.8% vs 48.6% in 2Q17 and 49.9% in 3Q16.

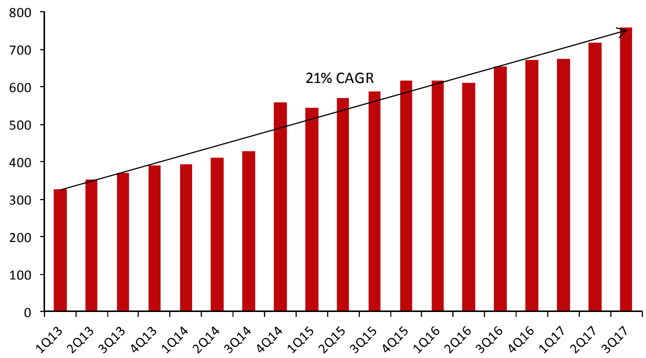
This brings 9M17 revenue and net profit to Rp4.4tr and Rp1.4tr respectively. PWON's 9M17 revenue is in line with our and consensus estimates. However, its 9M17 earnings trumped our previous forecast (meeting 85% of our FY17 forecast) due to lower operating, tax and interest expenses.

Stable recurring income growth

PWON booked Rp758bn recurring sales in 3Q17, a 16% increase over same period last year from its Pakuwon Mall II and III which were rolled out in February 2017. The newly opened Tunjungan Plaza Mall VI (Sep-2017) will be the new growth driver for PWON's recurring income next year.

Since 2013, PWON has been able to grow its recurring revenue at 21% CAGR. This growth has helped PWON to maintain its 50-50 portion of recurring and non-recurring sales.

PWON's recurring revenue (Rp bn)

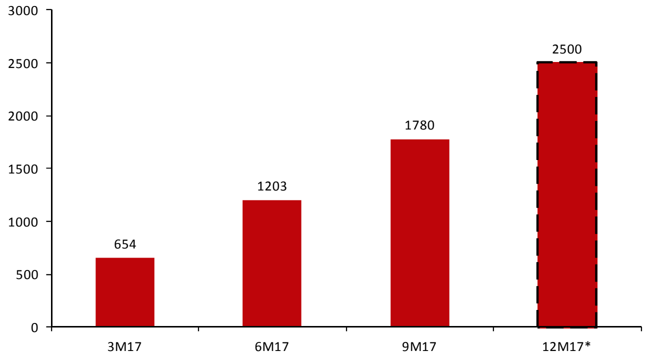


Source: Company, DBSVI

Marketing sales is largely in line

PWON achieved Rp577bn marketing sales in 3Q17. This brings 9M17 marketing sales to Rp1,780bn, or 71% of its FY17 marketing sales target of Rp2,500bn. Most of PWON`s marketing sales came from its high-rise residential projects such as Kota Kasablanka, Tunjungan City, Pakuwon City, and Pakuwon Mall residential.

PWON's 2017 marketing sales

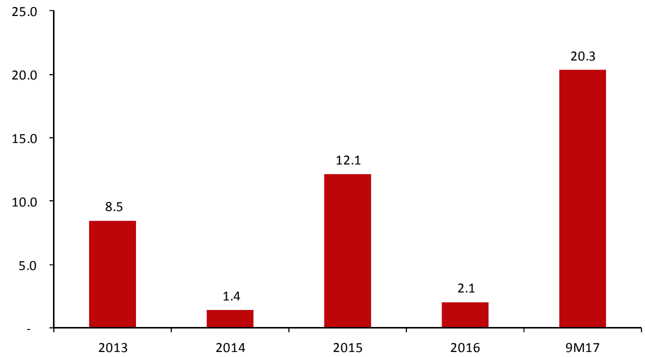


Source: Company, DBSVI
**company target*

Surge in mortgage provisions

We notice that this year PWON has a sizeable increase in its mortgage provisions. For 9M17, the company has booked Rp20bn provision for its mortgages, the highest since 2013.

PWON's mortgage provision (Rp bn)



Source: Company, DBSVI

FY17F/FY18F earnings revised by +10%/+2%

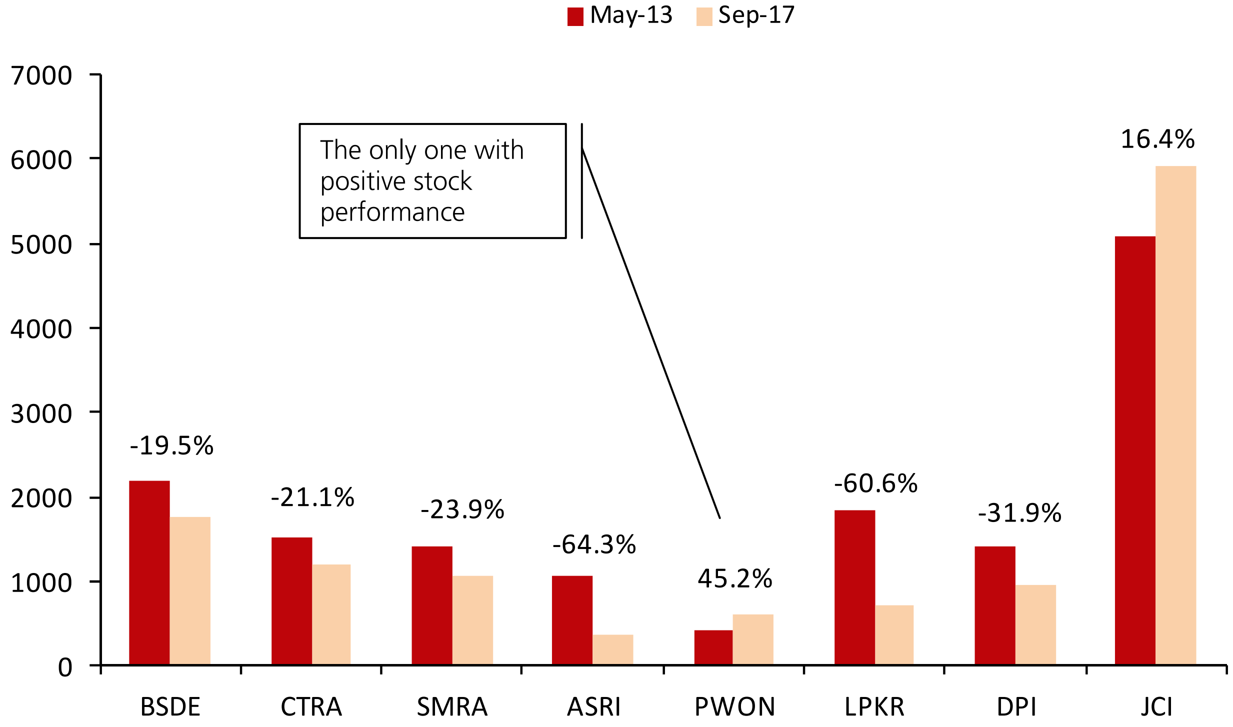
We revise up our FY17F/FY18F earnings forecast from Rp1.8tr/Rp2.1tr to Rp2.0tr/Rp2.1tr to account for lower operating, interest and tax expenses. We maintain our revenue forecast at for FY17F/FY18F at Rp5.5tr/Rp6.0tr and marketing sales projection at Rp2.4tr in FY17F.

Valuation

We use discounted RNAV valuation to arrive at our TP of Rp615/share. Our TP is pegged to a 16% discount to RNAV (its 5-year average). PWON is currently trading at a 10% discount to RNAV, a premium over its 5-year average.

We believe the share price is at a fair level despite its strong performance and the preference for PWON among developers in Indonesia. From the peak of the property market in mid-2013, most developers have seen their share prices drop 32% drop on average. Only PWON's share price has surged 45%, compared to the JCI's gain of only 16%.

Property sector's share price performance since its peak



Source: Company, DBSVI
**DPI: DBS property index*

PWON's RNAV summary

PWON portfolio	Stakes	RNAV
Investment Property		21,615
East Coast Center	100%	170
Tunjungan Plaza (I-IV) mall	100%	4,428
Tunjungan Plaza V mall	100%	735
Tunjungan Plaza VI mall	100%	834
Sheraton Hotel	100%	535
Tunjungan Plaza 4-star hotel	100%	421
Gandaria City	83%	2,632
Kota Kasablanka	100%	3,786
Gandaria 8 Office	83%	586
Kota Kasablanka Office 88 - Tower A (part leased)	100%	895
Kota Kasablanka Office 88 - Tower B (all leased)	100%	819
Gandaria 5-star hotel	83%	662
Supermal Pakuwon Indah - Phase 1 & Trade Cente	67%	1,770
Supermal Pakuwon Indah - Phase 2 & 3	67%	1,334
Supermal Pakuwon Indah - Phase 4	67%	267
Royal Plaza Mall	50%	502
Somerset Berlian	67%	122
Blok M Plaza	67%	513
Ascott Residence	67%	202
Pullman 5 star hotel	67%	225
Ibis 3-star hotel	67%	179
Development properties & Landbank		16,166
Tunjungan V - The Peak	100%	214
Tunjungan VI - Apartment	100%	232
Tunjungan V - Pakuwon Center	100%	179
Tunjungan VI - Office	100%	327
Pakuwon City - Palm Beach	100%	1,007
Pakuwon City - Community 1	100%	1,608
Pakuwon City - Community 2 (+ remaining landba	100%	3,352
Grand Pakuwon 1	100%	924
Grand Pakuwon 2 (+ remaining landbank)	100%	2,257
Kota Kasablanka tower 3	100%	135
Kota Kasablanka tower 4	100%	113
Kota Kasablanka tower 5	100%	790
Gandaria office - expansion	83%	1,066
Kota Kasablanka office - expansion	100%	1,352
4.5ha landbank in TB Simatupang	70%	630
4.1ha landbank in Kota Kasablanka	100%	1,025
1.9ha landbank in Gandaria City	83%	315
Pakuwon Indah - 6 apartments	67%	640
Net Debt		2,553
RNAV		35,228
Fully Diluted Share base (bn)		48.2
Fully Diluted RNAV per share		731

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	1,194	1,573	1,443	20.8	(8.2)
Cost of Goods Sold	(490)	(689)	(607)	24.0	(11.9)
Gross Profit	705	884	836	18.7	(5.4)
Other Oper. (Exp)/Inc	(109)	(119)	(131)	20.8	10.6
Operating Profit	596	765	705	18.3	(7.9)
Other Non Opg (Exp)/Inc	25.8	160	5.40	(79.3)	(96.7)
Associates & JV Inc	(1.1)	(3.0)	(2.5)	(130.6)	(16.9)
Net Interest (Exp)/Inc	(49.7)	(29.1)	(24.9)	49.9	14.3
Exceptional Gain/(Loss)	(36.4)	(198)	(20.7)	43.3	(89.6)
Pre-tax Profit	534	695	662	23.9	(4.8)
Tax	(92.1)	(95.6)	(90.2)	(2.0)	(5.6)
Minority Interest	(25.7)	(47.0)	(47.6)	(85.4)	1.2
Net Profit	417	553	523	25.6	(5.3)
Net profit bef Except.	453	751	544	20.0	(27.5)
EBITDA	596	765	705	18.3	(7.9)
Margins (%)					
Gross Margins	59.0	56.2	57.9		
Opg Profit Margins	49.9	48.6	48.8		
Net Profit Margins	34.9	35.1	36.3		

Source of all data: Company, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

Large portion of recurring revenue from investment properties
PWON generated 50% of its consolidated revenue from investment properties, mostly retail malls. We expect this proportion to be stable for the next few years as PWON has a balanced property portfolio. The large component of recurring revenue should provide PWON with a buffer against slower marketing sales in this challenging property market. This is in line with PWON's long-term target of 50-50 mix of recurring and non-recurring revenues.

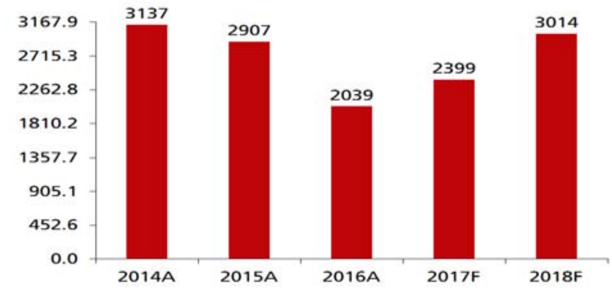
Marketing sales achieved
Property developer recognises non-recurring revenue from marketing sales achieved in the prior 2-3 years. We expect revenue to grow moderately at 11% CAGR over 2015-18F given that marketing sales grew at 33% CAGR over 2011-15. We estimate marketing sales can still grow at a moderate CAGR of 10% over the next three years, supported by its existing residential townships and high-rise developments in Indonesia's two largest cities – Jakarta and Surabaya.

Product mix
About 65% of PWON's non-recurring revenue comes from high-rise projects, and this segment has been generating stable gross profit margins (c.50%). Plus, given the large share of recurring revenue (50% of consolidated revenue) and stable sustainable margins, we expect overall gross profit margins to remain steady.

Good control of operating costs
PWON has been able to keep SG&A expenses (as a % of revenue) under control, despite the larger-than-average increase in two key items in SG&A expenses; "advertising, promotion, commission and events" for the purpose of attracting more demand for its developments during this challenging period and "salaries and allowances" given new substantial projects in its portfolios.

Strong bargaining power for retail mall operators
Given the limited supply of retail space supply in good areas, PWON (as one of the largest retail space owners and operators in Jakarta and Surabaya) should benefit from strong demand for retail space from both foreign and local brands.

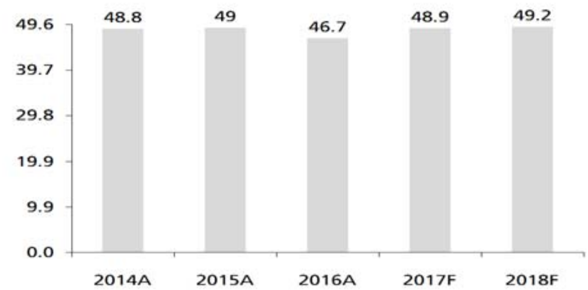
Marketing Sales (Rpbn)



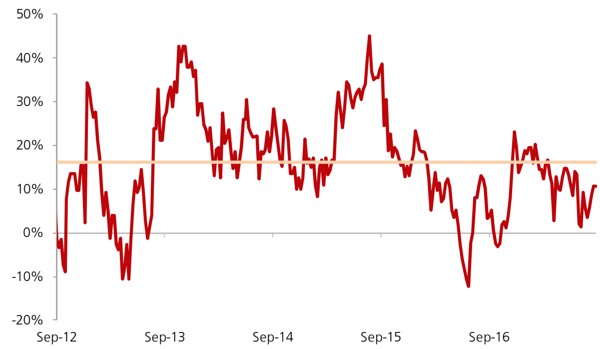
Net Profit Trend (Rpbn)

Sales Trend (Rpbn)

EBIT Margin (%)



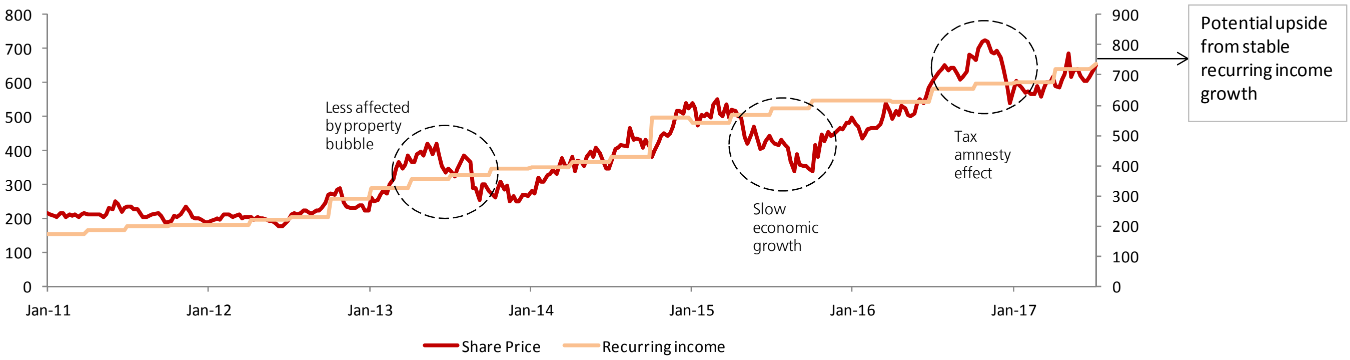
Disc to RNAV trend



Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Recurring income as critical factor to PWON's share price



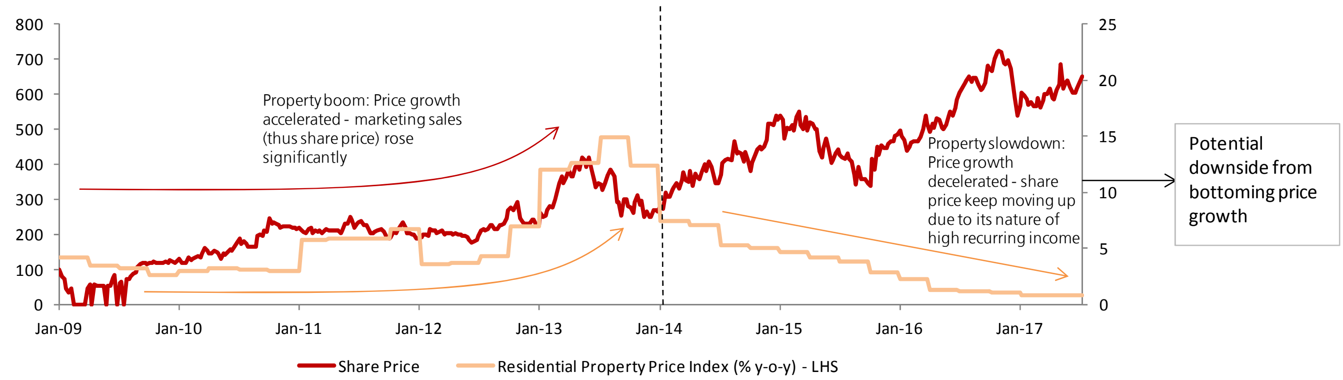
Source: Company, Bloomberg Finance L.P, Company, DBSVI

Among companies in our coverage, Pakuwon Jati (PWON) has the largest composition of recurring income. About half of its revenue comes from investment properties and the other half from development properties (via marketing sales).

During property boom periods, PWON's share price had appreciated thanks to the growth of both marketing sales and recurring income. However, after a property market slowdown, marketing sales has less influence on PWON's share price. We believe this is due to its high recurring income proportion among its peers, which will support its top-line in times of declining marketing sales.

With its strong base in Jakarta and Surabaya, the two largest cities in Indonesia, PWON has strong brand equity in the investment property business. We believe the ability to grow its investment properties further will act as a re-rating catalyst for its share price. This will hold true in a weak property market environment where investment properties will help support PWON's revenue growth.

During property sector slowdowns, PWON's share price has negative correlation with property price appreciation



Source: Bloomberg Finance L.P, BI, Company, DBSVI

In theory, property price appreciation should be a positive catalyst for property developers' share price re-rating. This holds true for most developers as well as PWON during property boom times.

However, the relationship has down a divergence for PWON's share price after the property market slowdown in late 2013. Since early 2014, the property market slowdown has resulted in lower property price appreciation but this had no impact on PWON's share price which kept trending up.

We believe this has to do with the market preference of favouring property developers with more stable earnings. PWON is one of the best candidates in this space due to the fact that half of its revenue comes from investment properties and it has been able to grow its recurring income during property market slowdowns. However, we think that property prices have already hit a bottom. The acceleration of property price gains might result in a change in the market's preference towards other property developers with more upside potential (mainly arising from their development property business).

Balance Sheet:

Net gearing level is reasonable

As a superblock developer, PWON's gearing has been higher than other developers. Net gearing has seen a trough and valley (but overall, it has improved significantly compared to 2008). And, with the current strong cash generation from asset monetisation, PWON's net gearing should stay at a reasonable level of c.40% in the next few years.

Secured alternative means to raise funds when required

On 27 Jun 2016, PWON has secured shareholders' approval for a 2-year option to execute a non-preemptive rights issue; maximum 4.8bn shares (equivalent to a 10% stake) at a minimum price of Rp514/sh – 25-day average closing price before the announcement on 19 May 2016.

Capex to normalise

We project capex to normalise going forward, after the spike in 2014 from major acquisitions (acquired a 67% stake in Pakuwon Permai project and 4.2ha landbank in T.B. Simatupang, South Jakarta).

Share Price Drivers:

Marketing sales achieved and project pipeline

Marketing sales achieved is a good indicator for all Indonesia property developers (including PWON) as it gives a leading indication of revenue generation for the next 2-3 years (depending on the revenue recognition).

Key Risks:

Potential interest rate hike

Property demand is sensitive to and is negatively correlated to interest rate movements.

Exposure to US$, both in terms of financials (debt in balance sheet) and operations (i.e. higher material cost especially for high-rise projects with higher US$-linked items), is a risk amid the weak IDR environment.

Strict implementation of potential revisions to housing development balance ratio (for low-end, mid-range and luxury houses). If such revisions are implemented strictly and retroactively, this could potentially mean additional costs for property developers and more complicated property development planning.

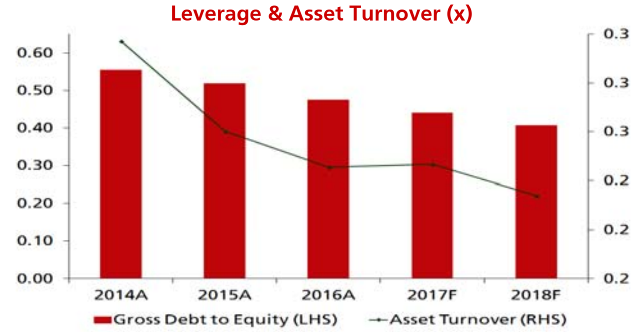
Capital-intensive projects require large funding.

High-rise and retail mall developments require large upfront capital. Cost of external financing has to be kept in check.

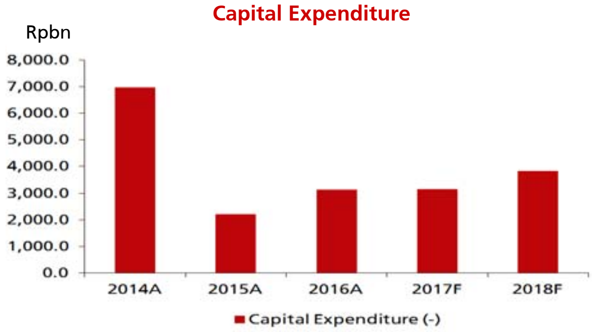
Company Background

A mixed-use property and residential township developer with assets in Jakarta and Surabaya. PWON has a balanced portfolio with a large share of recurring revenues from retail malls.

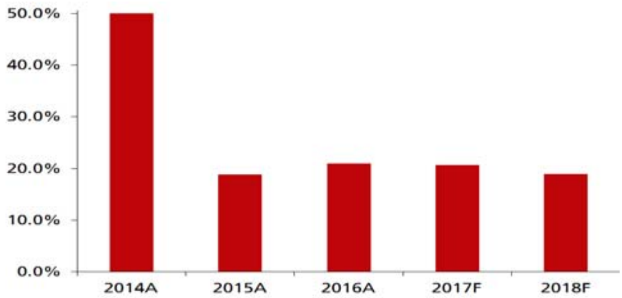
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBSVI

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Marketing Sales (Rpbn)	3,137	2,907	2,039	2,400	3,014
Net Profit Trend (Rpbn)	2,516	1,262	1,671	1,967	2,123
Sales Trend (Rpbn)	3,872	4,625	4,841	5,546	5,999
EBIT Margin (%)	48.8	49.0	46.7	48.9	49.2

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (Rpbn)					
Apartment & Office	1,588	1,510	1,464	988	1,027
Kavling & Building	493	799	824	1,206	1,350
Hotel	163	158	244	622	660
Rental & Maintenance	1,629	2,159	2,309	2,730	2,961
Total	3,872	4,625	4,841	5,546	5,999
Gross Profit (Rpbn)					
Apartment & Office	846	757	715	482	501
Kavling & Building	394	663	657	961	1,076
Hotel	68.3	64.8	86.2	220	233
Rental & Maintenance	851	1,183	1,296	1,532	1,662
Total	2,158	2,669	2,754	3,195	3,472
Gross Profit Margins (%)					
Apartment & Office	53.3	50.1	48.8	48.8	48.8
Kavling & Building	79.9	83.1	79.7	79.7	79.7
Hotel	41.9	41.1	35.3	35.3	35.3
Rental & Maintenance	52.2	54.8	56.1	56.1	56.1
Total	55.7	57.7	56.9	57.6	57.9

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	3,872	4,625	4,841	5,546	5,999
Cost of Goods Sold	(1,714)	(1,957)	(2,088)	(2,351)	(2,526)
Gross Profit	2,158	2,669	2,754	3,195	3,472
Other Opng (Exp)/Inc	(268)	(404)	(494)	(484)	(524)
Operating Profit	1,890	2,265	2,260	2,711	2,949
Other Non Opg (Exp)/Inc	(17.4)	(169)	8.20	0.0	0.0
Associates & JV Inc	(5.9)	(2.9)	(8.5)	0.0	0.0
Net Interest (Exp)/Inc	(86.9)	(74.5)	(229)	(282)	(324)
Exceptional Gain/(Loss)	1,080	(277)	26.3	26.3	26.3
Pre-tax Profit	2,859	1,741	2,057	2,455	2,650
Tax	(260)	(341)	(276)	(329)	(355)
Minority Interest	(83.6)	(139)	(110)	(160)	(172)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2,516	1,262	1,671	1,967	2,123
Net Profit before Except.	1,436	1,539	1,645	1,941	2,097
EBITDA	2,471	2,535	2,593	3,109	3,400
Growth					
Revenue Gth (%)	27.8	19.4	4.7	14.6	8.2
EBITDA Gth (%)	45.3	2.6	2.3	19.9	9.4
Opg Profit Gth (%)	25.0	19.8	(0.2)	20.0	8.8
Net Profit Gth (Pre-ex) (%)	16.3	7.2	6.9	18.0	8.0
Margins & Ratio					
Gross Margins (%)	55.7	57.7	56.9	57.6	57.9
Opg Profit Margin (%)	48.8	49.0	46.7	48.9	49.2
Net Profit Margin (%)	65.0	27.3	34.5	35.5	35.4
ROAE (%)	50.1	18.9	21.0	20.7	19.0
ROA (%)	19.3	7.1	8.5	8.7	8.3
ROCE (%)	17.5	13.2	12.6	13.4	12.9
Div Payout Ratio (%)	19.1	8.6	17.2	20.0	20.0
Net Interest Cover (x)	21.8	30.4	9.9	9.6	9.1

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,194	1,206	1,378	1,573	1,443
Cost of Goods Sold	(490)	(523)	(591)	(689)	(607)
Gross Profit	705	683	787	884	836
Other Oper. (Exp)/Inc	(109)	(173)	(120)	(119)	(131)
Operating Profit	596	511	666	765	705
Other Non Opg (Exp)/Inc	25.8	(7.0)	(154)	160	5.40
Associates & JV Inc	(1.1)	(6.2)	(2.4)	(3.0)	(2.5)
Net Interest (Exp)/Inc	(49.7)	(66.0)	(67.4)	(29.1)	(24.9)
Exceptional Gain/(Loss)	(36.4)	(52.4)	19.8	(198)	(20.7)
Pre-tax Profit	534	379	462	695	662
Tax	(92.1)	(3.0)	(88.4)	(95.6)	(90.2)
Minority Interest	(25.7)	(17.8)	(26.1)	(47.0)	(47.6)
Net Profit	417	358	348	553	523
Net profit bef Except.	453	411	328	751	544
EBITDA	596	511	666	765	705
Growth					
Revenue Gth (%)	(0.1)	1.0	14.2	14.2	(8.2)
EBITDA Gth (%)	18.8	(14.3)	30.5	14.8	(7.9)
Opg Profit Gth (%)	18.8	(14.3)	30.5	14.8	(7.9)
Net Profit Gth (Pre-ex) (%)	40.2	(9.4)	(20.1)	128.7	(27.5)
Margins					
Gross Margins (%)	59.0	56.7	57.1	56.2	57.9
Opg Profit Margins (%)	49.9	42.3	48.4	48.6	48.8
Net Profit Margins (%)	34.9	29.7	25.2	35.1	36.3

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	9,120	10,344	12,164	13,921	15,308
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	3,809	5,269	5,227	6,221	8,195
Cash & ST Invts	2,809	2,071	2,433	3,084	2,224
Inventory	6.60	10.3	16.0	16.0	16.0
Debtors	263	268	186	277	300
Other Current Assets	763	815	649	779	935
Total Assets	16,771	18,778	20,674	24,298	26,977
ST Debt	514	536	770	733	270
Creditor	134	198	212	235	253
Other Current Liab	3,600	4,046	4,038	5,449	5,866
LT Debt	4,082	4,372	4,471	4,904	5,710
Other LT Liabilities	164	171	165	165	165
Shareholder's Equity	6,167	7,219	8,684	10,317	12,046
Minority Interests	2,110	2,236	2,336	2,496	2,668
Total Cap. & Liab.	16,771	18,778	20,674	24,298	26,977
Non-Cash Wkg. Capital	(2,701)	(3,151)	(3,399)	(4,612)	(4,868)
Net Cash/(Debt)	(1,787)	(2,837)	(2,808)	(2,553)	(3,757)
Debtors Turn (avg days)	19.4	20.9	17.1	15.2	17.6
Creditors Turn (avg days)	43.1	42.9	44.0	43.9	44.4
Inventory Turn (avg days)	2.1	2.2	3.3	3.0	2.8
Asset Turnover (x)	0.3	0.3	0.2	0.2	0.2
Current Ratio (x)	0.9	0.7	0.7	0.6	0.5
Quick Ratio (x)	0.7	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.2	0.3	0.3	0.2	0.3
Net Debt/Equity ex MI (X)	0.3	0.4	0.3	0.2	0.3
Capex to Debt (%)	151.6	44.9	59.9	55.9	63.8
Z-Score (X)	3.0	2.8	2.7	2.5	2.4

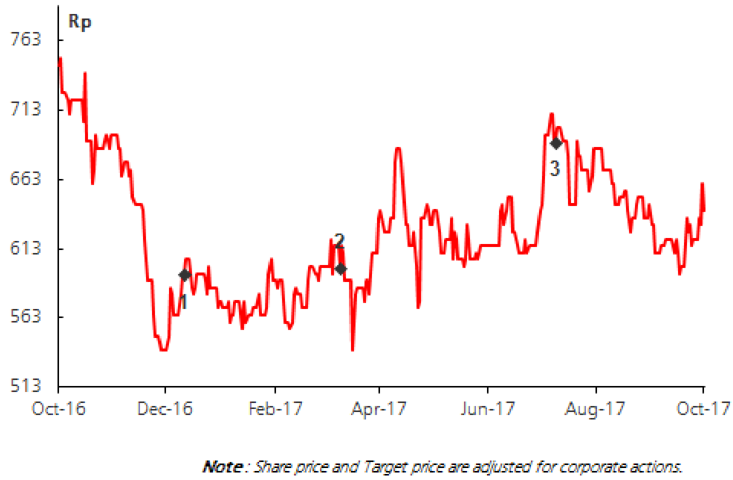
Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	2,859	1,741	2,057	2,455	2,650
Dep. & Amort.	582	271	333	398	451
Tax Paid	(260)	(341)	(276)	(329)	(355)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	554	449	248	1,213	256
Other Operating CF	(83.1)	(139)	(110)	(160)	(172)
Net Operating CF	**3,651**	**1,982**	**2,253**	**3,578**	**2,831**
Capital Exp.(net)	(6,967)	(2,204)	(3,141)	(3,149)	(3,813)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	1,884	126	99.9	160	172
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	162	(744)	1,024	0.0	0.0
Net Investing CF	**(4,921)**	**(2,822)**	**(2,017)**	**(2,989)**	**(3,640)**
Div Paid	(217)	(217)	(217)	(334)	(393)
Chg in Gross Debt	2,182	312	332	397	343
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(12.4)	7.30	10.7	0.0	0.0
Net Financing CF	**1,953**	**102**	**126**	**62.7**	**(50.0)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	683	(738)	361	651	(860)
Opg CFPS (Rp)	64.3	31.8	41.6	49.1	53.5
Free CFPS (Rp)	(68.9)	(4.6)	(18.5)	8.90	(20.4)

Source: Company, DBSVI

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Jan 17	595	615	HOLD
2:	03 Apr 17	600	615	HOLD
3:	03 Aug 17	690	615	HOLD

Source: DBSVI
Analyst: Victor STEFANO

Indonesia Company Guide

Summarecon Agung

Version 5 | Bloomberg: SMRA IJ | Reuters: SMRA.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Nov 2017

HOLD

Last Traded Price (31 Oct 2017): Rp1,035 (JCI : 6,005.80)
Price Target 12-mth: Rp1,050 (1% upside) (Prev Rp1,275)

Analyst
Victor STEFANO +6221 3003 4934 victor.stefano@id.dbsvickers.com

What's New

- 3Q17 back to profit
- Recent launch of Symphonia recorded good sales rate but at the expense of lower ASP
- Marketing sales to peak in 4Q17
- Maintain HOLD call with revised TP of Rp1,050

Price Relative

Forecasts and Valuation

FY Dec (Rp m)	2015A	2016A	2017F	2018F
Revenue	5,624	5,398	5,496	5,295
EBITDA	2,014	1,676	1,565	1,573
Pre-tax Profit	1,382	878	600	625
Net Profit	855	312	173	233
Net Pft (Pre Ex.)	855	312	173	233
Net Pft Gth (Pre-ex) (%)	(38.3)	(63.6)	(44.6)	34.8
EPS (Rp)	59.3	21.6	12.0	16.1
EPS Pre Ex. (Rp)	59.3	21.6	12.0	16.1
EPS Gth Pre Ex (%)	(38)	(64)	(45)	35
Diluted EPS (Rp)	59.3	21.6	12.0	16.1
Net DPS (Rp)	20.0	5.00	1.01	1.36
BV Per Share (Rp)	417	433	444	458
PE (X)	17.5	47.9	86.5	64.2
PE Pre Ex. (X)	17.5	47.9	86.5	64.2
P/Cash Flow (X)	nm	nm	24.5	74.4
EV/EBITDA (X)	10.5	13.3	14.1	14.7
Net Div Yield (%)	1.9	0.5	0.1	0.1
P/Book Value (X)	2.5	2.4	2.3	2.3
Net Debt/Equity (X)	0.6	0.7	0.6	0.7
ROAE (%)	15.0	5.1	2.7	3.6
Earnings Rev (%):			(61)	(67)
Consensus EPS (Rp):		N/A	23.5	35.3
Other Broker Recs:		B: 11	S: 4	H: 15

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

A new symphony

Earnings recovered in 3Q17 but outlook remains subdue
Summarecon Agung (SMRA) booked net profit of Rp70bn in 3Q17, doubling y-o-y and rebounding from Rp23bn loss in 2Q17. Overall margin trend remained in declining mode as SMRA's net profit margin has been below 10% since late 2015, much lower than the 2011-2014 average of 22%. The recent launch of a residential project in Serpong - Symphonia - is expected to boost marketing sales in 4Q17 but we see the implied land ASP coming in lower than the current land ASP in order to generate demand. Hence, margins are unlikely to return to historical levels anytime soon.

Where we differ: Maintain our HOLD call as we are less bullish on the near term outlook

Our view on the company is unchanged as we are less bullish on SMRA's near term outlook versus consensus. Some of SMRA competitors have the flexibility to sell land plots, which can support marketing sales and help to offset weak property demand. Furthermore, we believe SMRA`s loyal customers are still sitting on the fence and waiting for prices of properties to re-emerge as attractive investment propositions.

Potential catalyst: Missing its marketing sales target. With three months left and relatively muted demand, we believe there is downside risk to SMRA's FY17 marketing sales target of Rp3.5tr from residential properties.

Valuation:

We revised our RNAV for SMRA down to Rp1,749 from Rp2,125 as we lowered our assumptions on take up rate and ASP growth. Hence, we lowered our TP to Rp1,050 (from Rp1,275 previously) based on 40% discount (pegged to its 5-year average) to our base-case RNAV. We maintain our HOLD call as SMRA is currently trading at a 41% discount to its RNAV.

Key Risks to Our View:

Better-than-expected recovery in property demand for SMRA's projects should lead to better revenue growth and upside to margins.

At A Glance

Issued Capital (m shrs)	14,427
Mkt. Cap (Rpbn/US$m)	14,932 / 1,101
Major Shareholders (%)	
Semarop Agung (%)	26.2
Sinarmegah Jaya	8.6
Free Float (%)	65.2
3m Avg. Daily Val (US$m)	1.7

ICB Industry : Real Estate / Real Estate

DBS

ed: JS / sa:MA, PY, CS

WHAT'S NEW

4Q17 marketing sales to be boosted by Symphonia launch

Back to profit but still lags behind schedule

SMRA booked net profit of Rp70bn in 3Q17, which doubled y-o-y and rebounded from Rp23bn loss in 2Q17. Revenue recognition from marketing sales of M-Town's high rise project has provide SMRA with a decent revenue stream, however at the expense of margins. SMRA has been recording net profit margin of below 10% since late 2015, much lower than 2011-2014 average of 22%.

SMRA's 9M17 earnings of Rp119bn represent only 27% and 36% of our and consensus FY17 estimates. We expect SMRA to stay profitable in 4Q17 with the absence of a surge in selling expenses, interest expenses, and one off tax expense that was recorded in 2Q17.

New project launched at lower ASP

Strong take up from its new project - Symphonia

Summarecon Serpong recently launched a new project in Serpong called Symphonia. The two clusters launched are Vivaldi and Verdi. Both recorded significant sales with about 230 and 130 units of houses sold for Verdi and Vivaldi respectively.

The Vivaldi cluster consists of two types of houses with 118m2 and 130m2 of space. The land area varies from 128m2 to 180m2 depending on house location. Accordingly, the prices also vary from Rp 2,123m to Rp 2,731m per unit Meanwhile, the Verdi cluster has smaller units of 66m2 and 78m2. Land area varies from 72m2 to 134m2, and house prices range from Rp 1,162m to Rp 1,652m per unit.

We believe the successful launch is attributeable to its lower unit prices compared to its older products. Based on our estimates, Vivaldi's land area was sold at Rp10m psm and Verdi was sold at Rp9m psm. Both are lower than exisiting projects which have been sold at Rp11m psm – Rp13m psm.

9M marketing sales achieved by area

Type	Size (sqm)	Land Size (sqm)		Price (Rp mn)	
		Min	Max	Min	Max
Vivaldi - Allegro	118	128	176	2,123	2,731
Vivaldi - Allegretto	130	144	144	2,399	2,442
Verdi - Cadence	66	72	130	1,163	1,440
Verdi - Chromatic	78	84	135	1,364	1,652

Source: DBSVI

Overall residential property demand is still slow

SMRA booked marketing sales of Rp147bn in September 2017 (-27% y-o-y, -52% m-o-m). Its 9M17 marketing sales came in at Rp2tr or flat compared to same period last year. This made up only 57% of its revised FY17 target of Rp3.5tr. Last year's achievement was 66% of FY16 marketing sales of Rp3tr.

With three months left and a weak market outlook, we expect the company to slightly miss its Rp3.5tr target by 5%. We expect the company to book Rp3.3tr marketing sales this year on the back of the Symphonia launch which could book sales of around Rp600bn this year. Landplot sales have exceeded its target while Kensington office is expected to meet its full-year target.

9M marketing sales achieved by product (Rp m)

Type	Target	9M achievement	% achievement
Houses	1,350,000	745,448	55%
Shoplots	1,050,000	635,987	61%
Landplots	178,000	200,570	113%
Apartments	822,000	317,993	39%
Office Space	100,000	91,254	91%

Source: company, DBSVI

Serpong and Kelapa Gading performed well

Summarecon Serpong (SSP) and Summarecon Kelapa Gading (SKG) have performed well YTD with 74% and 71% achievement of their respective targets. SKG was supported by its Kensington office sales while Kensington residential was slightly behind target. SSP is still the main revenue engine for SMRA. It contributes Rp800bn or 73% of the group's FY17 target. Good sales rates were seen in its shophouse launches but condovillas came in below 50%. However, SSP continued to record decent marketing sales from inventory.

9M marketing sales achieved by product type (Rp bn)

Area	9M17	FY company target	Achievement
Kelapa Gading	212	300	71%
Bekasi	345	700	49%
Serpong	804	1,100	73%
Bandung	423	1,000	42%
Karawang	207	400	52%
Total	1,991	3,500	57%

Source: company, DBSVI

Outlook

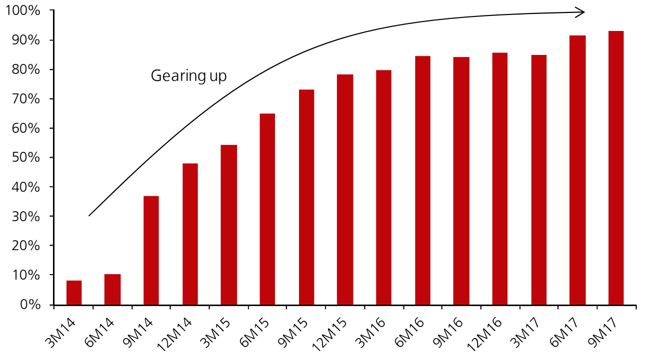
FY17F/FY18F earnings revised by -61%/-67%

We revised down SMRA's earnings forecast by -61%/-67% to account for lower gross margins from higher recognition of high rise residential units, and higher operating and interest expenses.

Marketing sales to reach Rp3.3tr

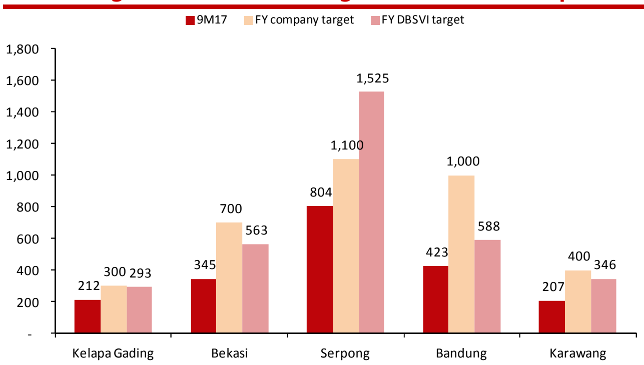
We expect SMRA to book Rp3.3tr in marketing sales for FY17, from Rp2tr in 9M17. Most of 4Q17's marketing sales will be contributed by its new Symphonia project that was recently launched, and shophouse launches in Serpong and Bandung. We believe Serpong will beat its FY17 target of RP1.1tr, Kelapa Gading will meet its target, while other areas would fall below their respective FY17 targets.

SMRA net gearing



Source: company, DBSVI

Marketing sales achieved, target, and forecast (Rp bn)



Source: company, DBSVI

Valuation

We revised our RNAV for SMRA down to Rp1,749 from Rp2,125 as we lowered our assumptions on take up rate and ASP growth. Hence, we lowered our TP to Rp1,050 (from Rp1,275 previously) based on 40% discount (pegged to its 5-year average) to our base-case RNAV. We maintain our HOLD call as SMRA is currently trading at a 41% discount to its RNAV.

Net gearing remains high at above 90% level

As of September 2017, SMRA net gearing stood at 93%, from 86% in December 2016. Slowing demand and high capex may place further burden on SMRA's balance sheet. We believe the company may need to raise funds to help its expansion going forward.

SMRA RNAV summary

SMRA portfolio	Stake	RNAV
Investment property		
Mall Kelapa Gading	100%	3,403
La Piazza	100%	303
Gading Food City	100%	76
Summarecon Mall Serpong	100%	1,515
Summarecon Mall Bekasi	100%	878
Plaza Summarecon	100%	426
Plaza Summarecon Serpong	100%	416
Plaza Summarecon Bekasi	100%	1,146
Menara Satu	100%	1,689
Summarecon Digital Center	100%	93
Summerville Apartment	100%	53
Harris Hotel - Kelapa Gading	100%	921
Harris Hotel - Bekasi	100%	502
Pop Hotel - Bekasi	100%	292
Movenpick Resort & Spa	100%	1,366
Total investment property surplus value (Rp bn) - 1		13,080
Development property		
Summarecon Serpong		
Scientia Garden	70%	399
The Springs	55%	218
Symphonia	100%	182
M-Town	100%	875
Summarecon Kelapa Gading	100%	1,259
Summarecon Bekasi	100%	581
Summarecon Bandung	100%	617
SummareconKarawang	100%	109
Total development property surplus value (Rp bn) - 2		4,240
Land Bank		
Summarecon Kelapa Gading	100%	1,950
Summarecon Serpong		
Own land	100%	5,039
Land under PT JBC	70%	1,695
Land under PT TGS	55%	405
Summarecon Bekasi		
Own land	100%	1,593
Land under PT DSA	51%	1,826
Summarecon Bandung	100%	2,768
Summarecon Bali	100%	975
Summarecon Bogor	51%	854
Summarecon Makassar		
Own land	100%	1,325
Land under PT SMC	51%	2,103
Summarecon Karawang	100%	347
Others	100%	513
Total land bank surplus value (Rp bn) - 3		21,394
Net Cash (Debt) - 4		(5,044)
RNAV - 1 + 2 + 3 + 4		33,670
Fully diluted share base (bn)		19.2
RNAV per share		1,749

Source: Company

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	1,296	1,455	1,309	1.0	(10.0)
Cost of Goods Sold	(713)	(873)	(741)	4.0	(15.2)
Gross Profit	584	582	568	(2.7)	(2.3)
Other Oper. (Exp)/Inc	(276)	(341)	(275)	(0.6)	(19.4)
Operating Profit	308	241	294	(4.6)	21.8
Other Non Opg (Exp)/Inc	0.50	(0.2)	2.30	315.9	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(120)	(152)	(123)	(2.7)	18.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	188	89.0	173	(8.2)	94.0
Tax	(68.9)	(70.2)	(59.1)	(14.2)	(15.8)
Minority Interest	(86.3)	(41.9)	(43.1)	50.0	2.8
Net Profit	33.1	(23.1)	70.5	113.1	nm
Net profit bef Except.	33.1	(23.1)	70.5	113.1	nm
EBITDA	308	241	296	(4.0)	22.9
Margins (%)					
Gross Margins	45.0	40.0	43.4		
Opg Profit Margins	23.8	16.6	22.4		
Net Profit Margins	2.6	(1.6)	5.4		

Source of all data: Company, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

Marketing sales as share price proxy
Marketing sales will translate into revenue which in turn will determine the profitability of property companies. Catching a glimpse of marketing sales movements can serve as a proxy of where the share price will head to.

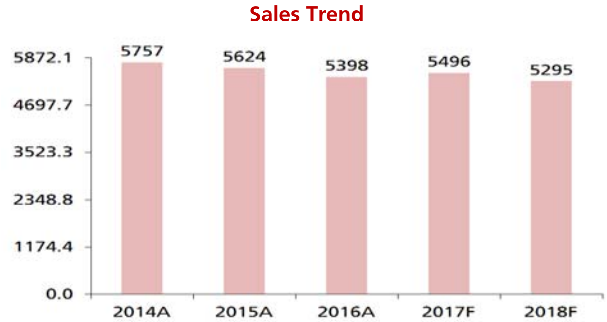
SMRA still generates half of its marketing sales from the Serpong area. Its Kelapa Gading contribution is getting smaller due to limited developments and low affordability in the area. The developments of Bandung and Karawang which started in 2015 and 2016, respectively, has contributed c.30% to 9M17 marketing sales.

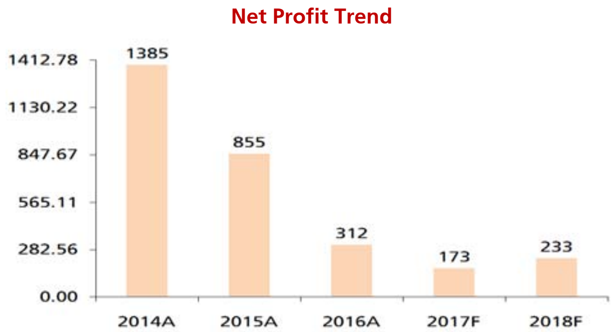
Property price growth equal to share price growth
We see high correlation between property share price growth with SMRA's share price. As one might expect, high property price growth indicates high demand for property. Since end-2013, property price growth has continued to decline, an indication that the property industry is in a downcycle.

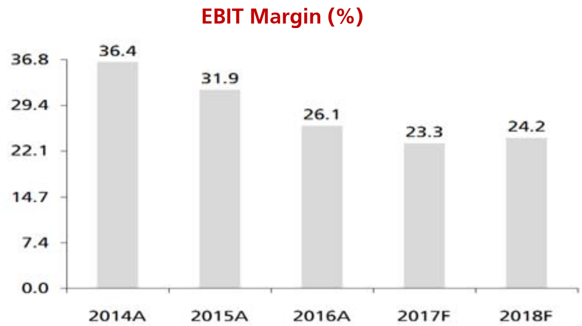
Property prices projected to be stagnant (<1% growth) in FY17. However, we expect property prices to bottom in 2017 before heading on a recovery cycle going forward.

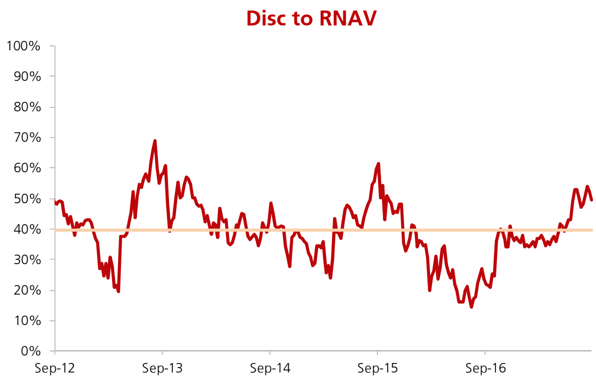
Keep an eye on mortgage rate
After a combination of the property boom cycle, which caused property prices to soar, and several relaxations on LTV, mortgage has become more appealing to property buyers. Lower mortgage rate will boost demand for property. This will in turn provide a positive catalyst for SMRA's share price.

Affordability is a key in property recovery
We see property price growth on a decelerating trend since 2014, thus making properties more affordable. Subject to economic growth rates, bottoming property prices will provide potential upside for marketing sales growth (thus share price) in the longer term.





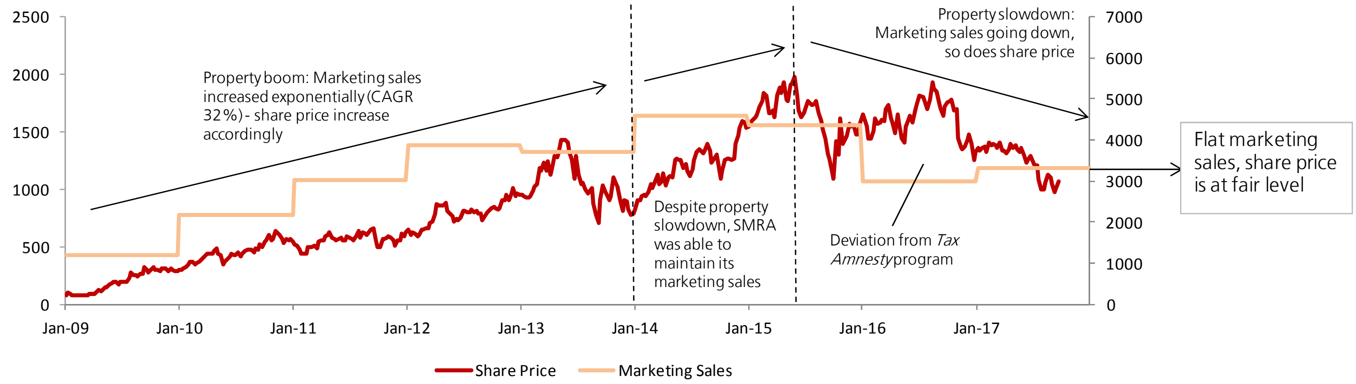




Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Marketing sales as key share price driver



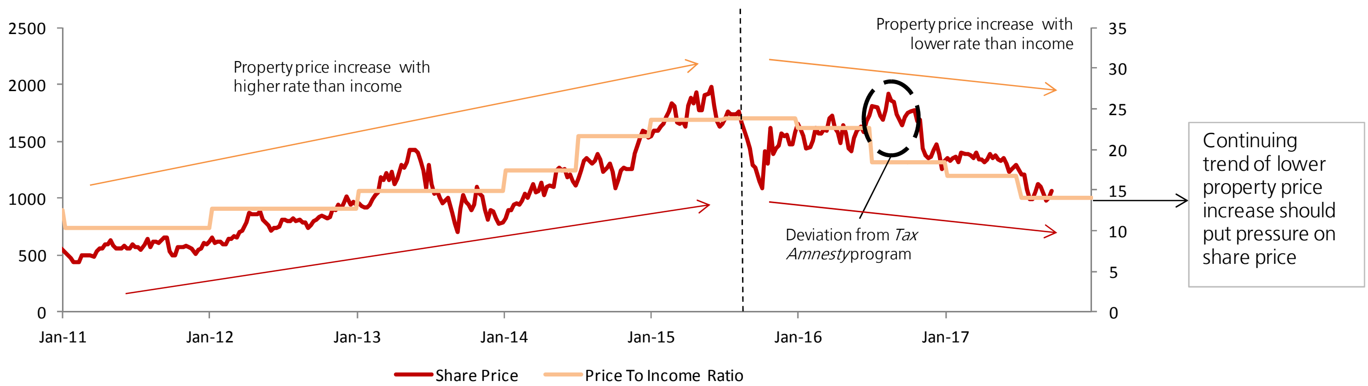
Source: company, Bloomberg Finance L.P., DBSVI

Marketing sales is a good indicator of where the future revenue will be. Depending on the recognition, it would take 1-3 years to translate marketing sales into accounting revenue.

SMRA`s marketing sales has been growing since 2009 until 2014 and share price has moved in tandem. Despite a property market slowdown since 2014, SMRA's marketing sales achieved during 2014-2015 has been strong compared to its industry due to its high-rise project in Serpong CBD and the roll-out of its new Summarecon Bandung project.

SMRA's marketing sales have been moving downwards since mid-2015 until now, despite its new Summarecon Bandung and Summarecon Karawang projects. We believe SMRA's share price movement tracks its marketing sales achievement closely.

Price to income ratio: a good proxy to SMRA`s share price



Source: numbeo, Bloomberg Finance L.P., DBSVI

Price to income ratio indicates how high housing property prices are compared to the income level. A higher ratio implies that properties are getting more expensive to buy.

We found this indicator an interesting proxy for SMRA's share price movement, as both seem to be moving in lockstep. During 2011–mid-2015, price to income ratio was getting higher due to significantly faster increase in property prices compared to the increase in income level. This provides an indication of the attractiveness of SMRA's property products as alternative investments, in our view.

The price to income ratio has been on declining trend since mid-2015, as property price growth has trailed income level growth. We expect such a relationship to continue and potentially become a hurdle for SMRA's share price to head north.

Balance Sheet:

Gearing up for more high-rise projects and potential acquisitions – the days of net cash position are gone for good. SMRA had been in net cash position from 2010 to 2013, as its strong cash generation outpaced annual capex requirements. However, more high-rise projects launched and land acquisitions have lifted gearing significantly. As of end-Sep 2017, net gearing reached 93%, a level not seen in the past decade. Given the slower net profit growth and cash flow generation, we expect net gearing to stay high.

Share Price Drivers:

Marketing sales achieved and pipeline. Marketing sales achieved is a good indicator for all Indonesia property developers (including SMRA), as it is a leading indicator for revenue generation over the next 2-3 years (depending on revenue recognition policy).

Policy loosening by government. The government's drive to lower funding cost (if successful) may provide some relief for developers with high gearing in the near to mid-term. Any loosening regulation regarding foreign ownership could also provide positive sentiments as a new potential market segment could be unlocked.

Key Risks:

Stricter regulations for high-rise developments. Plot ratio approvals and balanced ratio rules, when strictly implemented, could potentially slow property demand.

Liquidity tightening from banks could dampen property demand further.

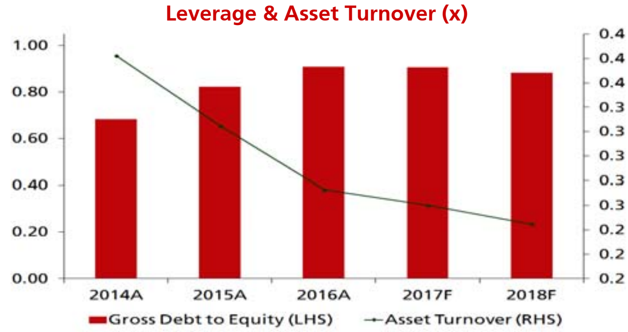
Potential interest rate hike. Property demand is sensitive to and is negatively correlated to interest rate movements.

Strict implementation of potential revisions to housing development balance ratio for low-end, middle-range and luxury houses. If implemented strictly and retroactively, such revisions could translate into additional costs for property developers and more complicated property development planning.

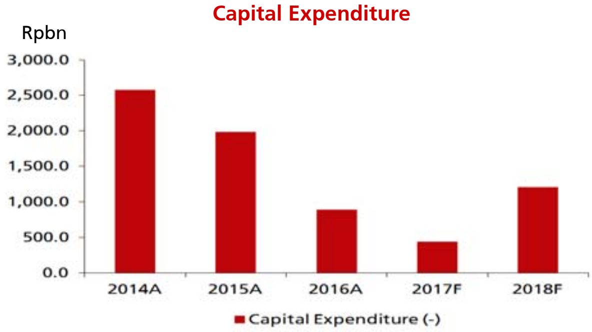
Company Background

SMRA is one of Indonesia's most established property developers. It has three existing township developments and several investment properties in its portfolio which generate sizeable recurring income – forming c.30% of revenues.

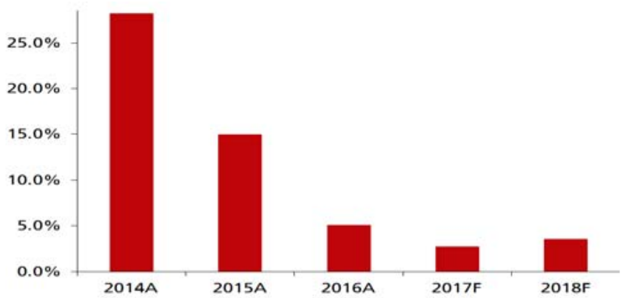
Leverage & Asset Turnover (x)



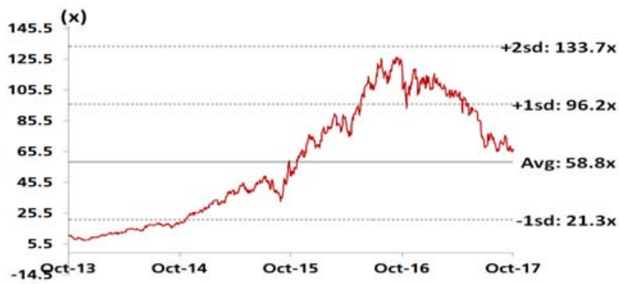
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBSVI

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Marketing sales	4,601	1,811	2,066	3,314	2,765
Sales Trend	5,757	5,624	5,398	5,496	5,295
Net Profit Trend	1,385	855	312	173	233
EBIT Margin (%)	36.4	31.9	26.1	23.3	24.2

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (Rpbn)					
Houses	1,987	1,353	1,559	1,508	1,728
Shophouses	1,478	954	89.1	209	438
Landplots	625	37.2	318	480	423
Apartments & Offices	116	1,633	1,595	1,468	780
Others	1,551	1,646	1,837	1,831	1,927
Total	5,757	5,624	5,398	5,496	5,295
Gross Profit (Rpbn)					
Houses	1,029	752	821	664	760
Shophouses	999	682	64.9	126	263
Landplots	390	36.0	280	408	360
Apartments & Offices	59.3	748	597	514	273
Others	580	689	835	749	789
Total	3,057	2,907	2,598	2,459	2,444
Gross Profit Margins (%)					
Houses	51.8	55.6	52.7	44.0	44.0
Shophouses	67.6	71.5	72.9	60.0	60.0
Landplots	62.5	96.7	88.2	85.0	85.0
Apartments & Offices	51.1	45.8	37.4	35.0	35.0
Others	37.4	41.9	45.4	40.9	40.9
Total	53.1	51.7	48.1	44.8	46.2

Income Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	5,757	5,624	5,398	5,496	5,295
Cost of Goods Sold	(2,700)	(2,717)	(2,800)	(3,036)	(2,852)
Gross Profit	3,057	2,907	2,598	2,459	2,444
Other Opng (Exp)/Inc	(980)	(1,139)	(1,190)	(1,182)	(1,165)
Operating Profit	2,077	1,768	1,409	1,278	1,279
Other Non Opg (Exp)/Inc	18.8	23.8	1.00	1.00	1.00
Associates & JV Inc	(0.9)	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(159)	(409)	(532)	(679)	(655)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,936	1,382	878	600	625
Tax	(319)	(318)	(273)	(277)	(267)
Minority Interest	(232)	(209)	(293)	(150)	(125)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,385	855	312	173	233
EBITDA	2,304	2,014	1,676	1,565	1,573
Growth					
Revenue Gth (%)	26.6	(2.3)	(4.0)	1.8	(3.6)
EBITDA Gth (%)	29.4	(12.6)	(16.8)	(6.6)	0.5
Opg Profit Gth (%)	27.9	(14.9)	(20.3)	(9.3)	0.1
Net Profit Gth (Pre-ex) (%)	27.1	(38.3)	(63.6)	(44.6)	34.8
Margins & Ratio					
Gross Margins (%)	53.1	51.7	48.1	44.8	46.2
Opg Profit Margin (%)	36.1	31.4	26.1	23.3	24.2
Net Profit Margin (%)	24.1	15.2	5.8	3.1	4.4
ROAE (%)	28.2	15.0	5.1	2.7	3.6
ROA (%)	9.2	4.9	1.6	0.8	1.1
ROCE (%)	15.7	9.7	5.8	3.8	3.9
Div Payout Ratio (%)	30.4	20.8	8.4	4.7	11.4
Net Interest Cover (x)	13.1	4.3	2.6	1.9	2.0

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,296	1,784	1,230	1,455	1,309
Cost of Goods Sold	(713)	(830)	(656)	(873)	(741)
Gross Profit	584	954	573	582	568
Other Oper. (Exp)/Inc	(276)	(377)	(274)	(341)	(275)
Operating Profit	308	577	299	241	294
Other Non Opg (Exp)/Inc	0.50	(1.5)	0.80	(0.2)	2.30
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(120)	(150)	(129)	(152)	(123)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	188	425	171	89.0	173
Tax	(68.9)	(70.4)	(64.4)	(70.2)	(59.1)
Minority Interest	(86.3)	(101)	(34.4)	(41.9)	(43.1)
Net Profit	33.1	254	71.9	(23.1)	70.5
EBITDA	308	575	333	241	296
Growth					
Revenue Gth (%)	2.0	37.6	(31.1)	18.3	(10.0)
EBITDA Gth (%)	15.8	86.4	(42.1)	(27.7)	22.9
Opg Profit Gth (%)	16.2	87.3	(48.1)	(19.3)	21.8
Net Profit Gth (Pre-ex) (%)	(977.6)	667.9	(71.7)	(132.1)	(405.7)
Margins					
Gross Margins (%)	45.0	53.5	46.6	40.0	43.4
Opg Profit Margins (%)	23.8	32.3	24.3	16.6	22.4
Net Profit Margins (%)	2.6	14.2	5.8	(1.6)	5.4

Balance Sheet (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	4,387	4,732	4,938	4,797	5,374
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	5,631	6,736	7,174	7,467	7,805
Cash & ST Invts	1,771	1,504	2,076	2,631	1,829
Inventory	3,341	4,925	5,531	5,446	5,751
Debtors	77.2	146	539	549	529
Other Current Assets	667	715	553	553	553
Total Assets	15,873	18,758	20,810	21,442	21,840
ST Debt	506	983	1,402	0.0	0.0
Creditor	71.0	63.0	57.6	62.5	58.2
Other Current Liab	3,117	3,363	2,757	2,827	2,791
LT Debt	3,876	5,214	6,024	7,676	7,776
Other LT Liabilities	1,886	1,604	2,403	2,403	2,403
Shareholder's Equity	5,422	6,011	6,241	6,400	6,613
Minority Interests	993	1,517	1,923	2,073	2,198
Total Cap. & Liab.	15,871	18,757	20,809	21,440	21,838
Non-Cash Wkg. Capital	896	2,360	3,808	3,658	3,983
Net Cash/(Debt)	(2,612)	(4,694)	(5,350)	(5,044)	(5,947)
Debtors Turn (avg days)	8.2	7.2	23.2	36.1	37.1
Creditors Turn (avg days)	10.4	9.2	8.3	8.3	8.3
Inventory Turn (avg days)	489.4	720.6	796.7	722.8	820.3
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.2
Current Ratio (x)	1.6	1.7	2.1	3.2	3.0
Quick Ratio (x)	0.5	0.4	0.6	1.1	0.8
Net Debt/Equity (X)	0.4	0.6	0.7	0.6	0.7
Net Debt/Equity ex MI (X)	0.5	0.8	0.9	0.8	0.9
Capex to Debt (%)	58.7	32.0	12.0	5.7	15.5
Z-Score (X)	2.3	2.0	1.8	1.9	2.0

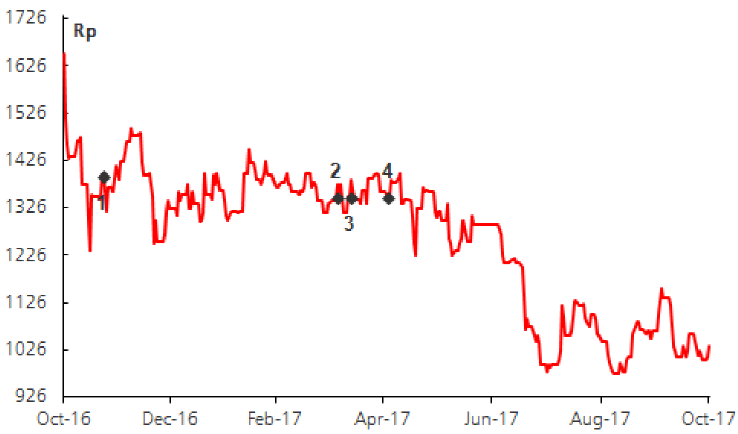
Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	1,936	1,382	878	600	625
Dep. & Amort.	209	222	266	287	293
Tax Paid	(319)	(318)	(273)	(277)	(267)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1,571)	(1,464)	(1,448)	150	(325)
Other Operating CF	(254)	(187)	(303)	(150)	(125)
Net Operating CF	**1.50**	**(365)**	**(880)**	**609**	**201**
Capital Exp.(net)	(2,574)	(1,983)	(892)	(438)	(1,209)
Other Invts.(net)	284	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	387	524	406	150	125
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(696)	28.4	782	0.0	0.0
Net Investing CF	**(2,599)**	**(1,430)**	**296**	**(288)**	**(1,084)**
Div Paid	(332)	(288)	(72.1)	(14.6)	(19.6)
Chg in Gross Debt	1,881	1,815	1,229	249	100
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(0.5)	0.30	0.0	0.0	0.0
Net Financing CF	**1,549**	**1,528**	**1,157**	**235**	**80.4**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(1,048)	(267)	573	555	(803)
Opg CFPS (Rp)	109	76.2	39.4	31.8	36.4
Free CFPS (Rp)	(178)	(163)	(123)	11.8	(69.9)

Source: Company, DBSVI

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Nov 16	1395	1275	HOLD
2:	03 Apr 17	1350	1275	HOLD
3:	11 Apr 17	1350	1275	HOLD
4:	02 May 17	1350	1275	HOLD

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBSVI
Analyst: Victor STEFANO

DBSVI recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 12 Dec 2017 16:16:48 (WIB)
Dissemination Date: 12 Dec 2017 16:45:05 (WIB)

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